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This forecast uses the October, 1983, U.S. Department of Commerce first estimates of 1983:3 National Income and Product data, and the 1982 benchmark revision data. Also used is the October 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Looking ahead over the next few years, KEDI sees fairly steady growth. It will be at its best pace in the latter part of 1984 and in 1987. REAL GROWTH The expansion of the economy at a 7.9 percent pace in the third quarter is still too much of a good thing. The pace should be a bit lower in order to spread it out more over time. Expect the fourth quarter rate to be in the 6.2 percent range. PRICES The CPI is now seen as moving ahead by 3.5 percent this year over 1982. In 1984, the projection remains at 4.6 percent. Producer prices will continue upward. EMPLOYMENT While the unemployment rate will edge down quite gradually, the number employed will expand by roughly two million in each of the next two years. The average workweek is seen as gaining gradually throughout the rest of this year and next year. HOUSING Starts were down in September--a needed adjustment. Resale of homes were up. There is some revision upward in this issue. AUTOS The forecast for total sales is inched ahead to 9.0 million for this year as opposed to 8.9 projected last month. Automakers projection for output are too high for the fourth quarter. BUDGETS KEDI's projection that the deficit for fiscal 1983 would be under $200 billion has been confirmed. The fiscal 1984 red-ink total will be lower but not as low as the Administration forecasts. INCOME The forecast for personal income is slightly reduced while profits projected are increased a bit. MONEY AND CREDIT The forecast is maintained. Any moves by the Fed will be minor and of short duration. INTEREST RATES, YIELDS, AND SECURITIES PRICES. Interest rate moves will be quite marginal in a very slight downward direction over the next two years.

1.02 OVERVIEW

The long-term outlook is optimistic. KEDI does not expect there will be any major declines in the foreseeable future.

1984. Improvements in the economy will continue. Growth is seen as robust in the second half of the year and represents one peak.

1985. Look for some slowing but no recession.

1986. Expect the slow expansion to continue.

1987. The economy will pick up steam.

1988. Ongoing growth is anticipated for this year. It is seen as the peak of the cycle.

Looking ahead five years shows a generally steady pulse in the economy. No repetition of the 1982 recession is forecast. Growth will be slowest in the 1985 and 1986 years they will not register declines.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumption No. 2 has been updated.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; in 1986, to $32 per barrel; and in 1987, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1985 or 1986.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In 1984-1985 stabilizing is expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1485.4	1534.7	1725.0	1797.5
Index of industrial production	1967=100	138.5	147.4	155.4	166.6
Capacity utilization	%	71.7	75.1	80.1	82.4
Unemployment rate	%	9.7	9.8	8.0	7.6
Private housing starts	mil.	1.061	1.599	1.542	1.804
Car sales	mil.	8.0	9.0	9.1	9.9
Implicit GNP price deflator	1972=100	206.9	215.7	252.0	266.4
Consumer price index	1967=100	288.6	298.5	344.1	366.1
Producer price index*	1967=100	288.6	285.5	343.3	369.0
Federal deficit	bil.$	-147.1	-176.2	-74.8	-48.5
Personal income	bil.$	2578.6	2738.4	3411.3	3663.7
Prime rate	%	14.86	10.76	10.04	11.14
Mortgage rate	%	15.57	13.17	13.79	12.02
Currency plus demand deposits	bil.$	473.5	508.1	605.1	646.2
Commercial and industrial loans	bil.$	392.2	400.8	427.8	441.1

* Finished goods

ASSUMPTIONS

5. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are anticipated.

The November 1983 KEDI forecast is highlighted on page 3.

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

As KEDI predicted, the rate of growth of the third quarter was down from the exhausting pace of the second quarter. Expansion then was at a 9.7 percent pace. That slowed to a reversal of digits, 7.9 percent in the third quarter. That is a good sign, but it is still too fast. It has to slow down more so that growth will continue over a longer period rather than run out of steam from too powerful a start.

Look for growth to be in the 6.2 range in the fourth quarter of this year. KEDI expects it to edge down more to 5.9 percent in the first quarter of 1984. Other projections by economists of growth are in the 4-6.5 percent bracket at an annual rate.

Good news has been flooding data gatherers.

1. Inventories were up by 1.2 percent in August. That was the fastest rate of the current recovery. KEDI agrees with Commerce Secretary Malcolm Baldrige that inventory growth is still low in relation to sales. Such a condition points to more production, buying and hiring. Inventory gains were concentrated in manufacturing materials and supplies. That also points to more sales.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Gross national product,1972$	bil. 1972 $	1485.4	1490.1	1525.1	1554.4	1568.5	1534.7	3,3
Index of industrial product.	1967=100	138.6	138.5	144.5	151.7	154.9	147.4	6.3
Unemployment rate	%	9.7	10.3	10.1	9.4	9.2	9.8	.5
Capacity utilization rate	%	71.1	71.2	73.9	77.1	78.0	75.1	5.6
Private housing starts	mil. units	1.061	1.694	1.684	1.604	1.414	1.599	50.7
Car sales	mil. units	8.0	8.4	8.8	9.0	9.1	8.9	11.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product,1972$	bil. 1972 $	1534.7	1580.1	1588.8	1697.5	1634.2	1602.7	4.5
Index of industrial product.	1967=100	147.4	157.9	161.3	165.6	168.2	163.3	10.8
Unemployment rate	%	9.8	9.0	8.8	8.2	8.0	8.5	-12.7
Capacity utilization rate	%	75.1	78.9	80.7	81.7	82.0	80.8	7.6
Private housing starts	mil. units	1.599	1.465	1.827	1.849	1.603	1.686	5.4
Car sales	mil. units	8.9	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product,1972$	bil. 1972 $	1602.7	1645.5	1656.1	1673.8	1685.0	1665.1	3.7
Index of industrial product.	1967=100	163.3	170.8	171.6	173.0	173.7	172.3	5.5
Unemployment rate	%	8.5	7.9	7.9	7.8	7.9	7.9	-7.6
Capacity utilization rate	%	80.8	82.1	82.3	82.3	82.2	82.2	1.7
Private housing starts	mil. units	1.686	1.400	1.772	1.690	1.353	1.579	-6.3
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

REAL GROWTH

2. New orders for durables moved ahead in August. In September, the small downward move was attributed to the auto category. If transportation equipment industries were excluded, factory orders showed a rise of 3.9 percent in September. The total value of new orders was $89.5 billion for September compared to $90 billion in August, seasonally adjusted. The August gain was 2 percent over July.

3. The National Association of Purchasing Managers reported their monthly survey points to a surge of buying and continuation of expansion. In September, incoming orders were up at 48 percent of companies surveyed and down at only 8 percent.

4. The survey by the Conference Board showed that buying plans of consumers were up in September. The level of confidence was about the same. The buying plans index jumped up to 108.6 after it had gone down to 83.9 in August.

5. The nation has been seeing a fairly steady upward move in the use of factories. In September there was a nice jump to 78.1 percent of capacity. That was the highest rate since October of 1981.

6. It was reported in Iron Age that steel demand is to go up from 17 million tons in the third quarter to about 18 or 18.5 million tons in the final quarter.

7. The International Iron and Steel Institute anticipated steel demand will rise 6.1 percent in the noncommunist world in 1984. For the U.S.A., a gain of 12.2 percent is expected, while Common Market countries gain 4.5 percent in demand.

8. Productivity has been increasing since the third quarter of last year. It showed a gain of 3.7 percent in the nonfarm business sector during the

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	1485.4	1490.1	1525.1	1554.4	1568.5	1534.7	3.3
Personal cons. expenditures	bil.$	970.2	976.3	1010.6	1019.2	1024.2	1007.6	3.9
Gross private dom. investment	bil.$	194.5	196.7	210.2	230.4	240.5	219.5	12.9
Net exports	bil.$	29.4	24.6	12.3	8.7	6.9	13.1	-55.4
Government. purchases:								
Federal	bil.$	116.4	117.9	117.6	119.6	119.1	118.6	1.9
State and local	bil.$	174.9	174.6	174.5	176.6	177.8	175.9	.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	1534.7	1580.1	1588.8	1607.5	1634.2	1602.7	4.5
Personal cons. expenditures	bil.$	1007.6	1030.8	1034.2	1043.1	1061.2	1042.3	3.4
Gross private dom. investment	bil.$	219.5	250.7	253.2	258.4	264.3	256.7	16.8
Net exports	bil.$	13.1	1.0	1.1	3.2	3.5	2.2	-83.2
Government purchases:								
Federal	bil.$	118.6	120.8	122.4	123.6	124.9	122.9	3.6
State and local	bil.$	175.9	176.8	177.9	179.1	180.3	178.6	1.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	1602.7	1645.5	1656.1	1673.8	1685.0	1665.1	3.7
Personal cons. expenditures	bil.$	1042.3	1065.7	1067.7	1079.4	1080.1	1073.2	3.0
Gross private dom. investment	bil.$	256.7	270.1	275.8	278.1	283.2	276.8	7.8
Net exports	bil.$	2.2	2.1	3.3	3.5	4.1	3.3	50.0
Government purchases:								
Federal	bil.$	122.9	125.9	126.2	128.3	130.5	127.7	3.9
State and local	bil.$	178.6	181.7	183.1	184.5	187.1	184.1	3.1

*Historical data (1) % change over previous year

REAL GROWTH

first quarter of this year. During the second quarter, the recently revised rate showed a healthy move up of 6.1 percent.

9. Building awards went up by 7 percent in August. They were a whopping 36 percent ahead of the depressed year-earlier level. Almost all of the gain was from the housing area. Recovery for commercial and industrial buildings has barely begun, according to George Christie, chief economist for F.W. Dodge.

10. Retail sales by major retailers were up again in September. That makes five straight months of improvement. Sample year-to-year increases were: Sears, 11.2 percent; Zayre Corp., 17.7; R.H. Macy, 16.9; and May Dept. Stores, 16.3 percent.

Overall, retail sales in September were up by 1.6 percent from the August level. Sales increased to an adjusted $99.48 billion.

11. Industrial production gained in September. It was up to 153.7 percent of the 1967 base, seasonally adjusted. The August level was at 151.4

12. Auto sales are recovering nicely--thank you. Housing news is mixed. The reader is referred to sections 1.41 and 1.42.

Although the good news is abundant, areas still have problems. Some industries in this category are coal mining, machine tools, cement, airlines, energy exploration, and exports to name a few.

The trade deficit grew to $7.19 billion in August. The expansion here fueled demand for imports which created the record gap. Our exports remain depressed due, in part, to the strong dollar.

1.21 PRICES
(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	288.6	293.1	296.2	299.8	304.6	298.5	3.5
Producer price index,n.s.a.**	1967=100	280.6	283.7	284.9	285.9	287.6	285.5	1.8
Price deflators:								
GNP	1972=100	206.9	212.8	214.5	216.4	218.7	215.7	4.3
Personal cons. expenditures	1972=100	205.3	209.0	212.4	214.5	216.2	213.0	3.8
Gross private dom.investment	1972=100	213.1	212.9	214.1	217.4	224.5	217.2	1.9
Federal purchases	1972=100	221.9	230.0	232.7	235.1	237.6	233.9	5.4

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	298.5	306.5	311.2	313.9	317.2	312.2	4.6
Producer price index,n.s.a.**	1967=100	285.5	294.2	297.5	303.1	308.7	300.9	5.4
Price deflators:								
GNP	1972=100	215.7	223.6	225.7	227.8	232.0	227.3	5.4
Personal cons. expenditures	1972=100	213.0	218.8	221.2	222.4	225.6	222.0	4.2
Gross private dom.investment	1972=100	217.2	230.0	234.2	236.2	242.7	235.8	8.6
Federal purchases	1972=100	233.9	238.9	241.2	244.2	248.1	243.1	3.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	312.2	320.4	324.2	328.4	334.8	327.4	4.8
Producer price index,n.s.a.**	1967=100	300.9	314.6	318.0	323.3	328.3	321.1	6.7
Price deflators:								
GNP	1972=100	227.3	234.5	237.6	241.2	243.0	239.1	5.2
Personal cons. expenditures	1972=100	222.0	228.0	231.1	235.1	237.0	232.8	4.9
Gross private dom.investment	1972=100	235.8	244.2	247.0	249.3	252.1	248.2	5.3
Federal purchases	1972=100	243.1	250.3	253.4	256.0	259.1	254.7	4.8

*Historical data (1) % change over previous year **Finished goods

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast for the rest of this year is revised a bit. There is no change in inflation rates projected for the next two years. The change in the CPI for 1983 is now seen as being 3.5 percent higher than in 1982. (Last month the forecast was for a change of 3.3 percent.) The reason for the change lies with food, cars, and housing which are now seen as going up a bit more than was calculated earlier.

The rate of inflation will remain on the moderate side in both 1984 and 1985. The CPI is seen as gaining 4.6 percent in 1984 and close to 4.8 percent in 1985.

In September, the rate of inflation bounced up 0.5 percent. That was the highest increase in five months and was attributed to autos and housing. A 1.4 percent drop in tuition in the Index held the rate to the 0.5 percent level. That drop will not be repeated.

The CPI was at 301.8 in September. That "market basket" of goods that cost $100 in 1967 cost just over three times that in September of this year.

Wholesale prices moved ahead by just 0.2 percent in September. That was just half the August rate. Raw materials prices gained 0.5 percent after having jumped ahead by 2.1 percent in August. Producer prices are definitely on the way up. Raw materials, food, and capital equipment will push such prices ahead during the rest of this year and in 1984.

Paul Volcker looks to inflation next year in the 4.25-5.0 percent range or lower. That is a very broad forecast. On the other hand, the Reagan administration sees the rate at 5 percent. The consensus of Blue Chip Economic

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	3073.0	3171.5	3272.0	3363.3	3435.2	3310.5	7.7
Personal cons. expenditures	bil.$	1991.9	2069.4	2147.0	2186.5	2214.3	2154.3	8.2
Gross private dom. investment	bil.$	414.5	404.1	450.1	501.0	539.9	473.8	14.3
Net exports	bil.$	17.4	20.5	-8.3	-25.9	-28.1	-10.5	-
Government. purchases:								
Federal	bil.$	258.7	273.5	273.7	281.2	283.0	277.9	7.4
State and local	bil.$	390.5	404.0	409.7	420.6	426.1	415.1	6.3

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3310.5	3533.3	3585.2	3661.4	3790.7	3642.7	10.0
Personal cons. expenditures	bil.$	2154.3	2255.4	2287.7	2319.9	2394.1	2314.3	7.4
Gross private dom. investment	bil.$	473.8	576.6	593.0	610.3	641.5	605.4	27.7
Net exports	bil.$	-10.5	-19.8	-30.4	-18.6	-14.9	-20.9	-
Government purchases:								
Federal	bil.$	277.9	288.7	295.2	301.8	309.9	298.9	7.6
State and local	bil.$	415.1	432.4	439.7	448.0	460.1	445.1	7.2

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3642.7	3859.3	3934.6	4037.5	4094.9	3981.6	9.3
Personal cons. expenditures	bil.$	2314.3	2429.8	2467.5	2537.7	2559.9	2498.7	8.0
Gross private dom. investment	bil.$	605.4	659.6	681.2	693.3	713.9	687.0	13.5
Net exports	bil.$	-20.9	-11.0	-6.2	-1.6	-4.2	-5.8	-
Government purchases:								
Federal	bil.$	298.9	315.1	219.8	328.4	338.1	325.4	8.8
State and local	bil.$	445.1	465.8	472.3	479.7	487.3	476.3	7.0

*Historical data. (1) % change over previous year.

Indicators is for the CPI to go up 5.3 percent, according to Robert Eggert.

KEDI looks to an inflation rate that is not as high as the Administration or the Blue Chip consensus. The forecast here of 4.6 percent is within the broad range Volker noted.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

The forecast data for Nominal GNP show that in 1984 and 1985 the Gross Private Domestic Investment will become the fastest growing component mainly due to increases in inventories. KEDI anticipates that in 1984 the inventories will accumulate at the annual rate of 8-10 billion dollars mostly as inventories of raw materials and goods in process. In 1985, with the economy slowing down, larger increases in inventories of products at wholesalers and retailers are projected.

KEDI's forecast of the U.S. foreign trade in 1984-1985 remains pessimistic. It will be in red throughout the entire forecast period. The rate of exchange of dollar will be high and no significant declines are expected. That will stimulate imports and keep breaks on our exports. The strong position of dollar on international markets will be supported by price developments in the world. It is anticipated that the U.S. rate of inflation will be either the lowest or among the lowest when compared with other countries. That will be a major force that will keep the U.S. dollar stable and, possibly, push its value further up.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

Joblessness will remain stubbornly high for reasons that have been outlined here before. Still, the number of employed will expand.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	235.1	232.9	1.4
Civilian labor force	mil.	110.2	110.5	111.1	112.4	114.5	112.1	1.7
Employment	mil.	99.5	99.1	100.0	103.0	104.5	101.7	2.2
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	96.1	95.7	96.6	99.6	101.1	98.3	2.3
Unemployment rate	%	9.72	10.34	10.10	9.43	9.18	9.76	.4

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	2.0
Civilian labor force	mil.	112.1	115.0	115.8	116.9	117.7	116.4	3.8
Employment	mil.	101.7	104.5	105.6	107.4	108.3	106.5	4.7
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	98.3	101.1	102.2	104.3	104.9	103.1	4.9
Unemployment rate	%	9.76	9.10	8.84	8.14	8.01	8.52	-12.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.7	1.9
Civilian labor force	mil.	116.4	118.9	120.2	122.7	124.8	121.7	4.5
Employment	mil.	106.5	109.5	110.7	113.1	115.0	112.1	5.3
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	103.1	106.1	107.3	109.7	111.6	108.7	5.4
Unemployment rate	%	8.52	7.94	7.91	7.84	7.85	7.89	-7.4

*Historical data (1) % change over previous year

EMPLOYMENT AND LABOR

There is a fractional reduction in the jobless rate forecast for the fourth quarter of this year. Look for it to average 9.18 percent. (Last month the figure was set at 9.26). Expect the rate to move down to 8.01 percent in the fourth quarter of next year.

It is also pleasant to report the jobless rate among married men moved down in September to 6.1 percent from the August rate of 6.3 percent. The unemployment rate of 9.3 percent for that month showed some improvement over the 9.5 percent of the prior month.

The long-term jobless program was extended by Congress by 18 months. It will run through March of 1985. Around 3.3 million people are expected to make use of this extension. On the darker side, the economic shift away from older factory jobs will continue to leave millions by the wayside--especially the "older" worker not seen as economically retrainable.

On the brighter side, improvements are seen in the average workweek. It stretched to 40.7 hours in September from 40.3 in the prior month. That put it at the highest level since early in 1978. That is certainly good news for those with such jobs. The average workweek forecast by KEDI is seen as gaining steadily through next year and is set at 41.0 hours for the fourth quarter of this year.

Average Workweek, by Quarter, 1984 forecast in Hours

1st Quarter	41.2
2nd Quarter	41.9
3rd Quarter	42.9
4th Quarter	43.8

1.41 HOUSING

(Table 1.41 on page 15)

It is not being a real party pooper to say that it is good news that housing starts dropped back in September. It has been forecast here for some time

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Single-family housing starts	mil.	.656	1.079	1.099	1.085	.886	1.038	58.2
Multifamily housing starts	mil.	.405	.615	.585	.705	.589	.624	54.0
Mobile home shipments	mil.	.239	.281	.293	.281	.269	.281	17.6
Permits authorized	mil.	1.000	1.464	1.639	1.603	1.496	1.551	55.1
1-family unit** price, new	tho.$	84.0	87.1	91.4	93.4	94.6	91.6	9.1
1-family unit** price, existing	tho.$	80.3	80.5	82.1	83.4	85.0	82.8	3.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Single-family housing starts	mil.	1.038	.869	1.179	1.204	.957	1.082	4.2
Multifamily housing starts	mil.	.624	.548	.642	.681	.658	.632	1.3
Mobile home shipments	mil.	.281	.274	.287	.284	.280	.280	-.1
Permits authorized	mil.	1.551	1.328	1.582	1.604	1.519	1.508	-2.8
1-family unit** price, new	mil.	91.6	96.8	98.4	99.7	103.8	99.7	8.8
1-family unit** price, existing	tho.$	82.8	85.7	88.3	91.2	94.5	90.0	8.6

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Single-family housing starts	mil.	1.082	.897	1.127	1.096	.834	.989	-8.6
Multifamily housing starts	mil.	.632	.603	.660	.637	.559	.615	2.7
Mobile home shipments	mil.	.280	.262	.269	.239	.241	.253	-10.0
Permits authorized	mil.	1.508	1.376	1.105	1.008	1.041	1.133	-24.9
1-family unit** price, new	tho.$	99.7	105.6	107.2	109.1	110.3	108.1	8.4
1-family unit** price, existing	tho.$	90.0	96.2	98.1	99.0	100.1	98.4	9.3

*Historical data (1) % change over previous year **Not seas. adjusted

that such an adjustment was needed. Cooling was needed to bring this area more in line with general growth and prevent boom and bust. Starts were down by 13.5 percent to an adjusted annual rate of 1.652 million. That rate is about the rate forecast here for this year. (See Table 1.41)

The forecast for fourth quarter starts and for housing starts next year is revised upwards in this issue. For instance, single-family starts were forecast as gaining 53.3 percent this year over last year in the October issue. That figure has been revised to 58.2 percent. Such starts are seen as gaining 7.6 percent in 1984 over 1983, whereas, the prior forecast was at 5.6 percent.

KEDI agrees with Michael Sumichrast of the NAHB that starts in the fourth quarter will be at an annual rate of close to 1.540 billion. Mr. T. Howard, chief economist with the Federal National Mortgage Association, looks to a fourth quarter rate of 1.7 million and a total of 1.72 million for all of this year. KEDI does not agree. It will not be quite that good. However, his forecast of starts in 1984 being 1.7 million is essentially agreed with here.

Resales of single-family houses went up 1.1 percent in September after having gone down for two months. The mean price was off a tad to $70,400--1.5 percent below the August mean. (Every little bit helps potential buyers.)

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast is increased fractionally. Total sales are projected at 9.0 million versus the forecast last month of 8.9 for this year. For 1984, the total is revised to 9.5 million from 9.2 million.

In mid-October, U.S. car sales were up 41.1 percent from the very depressed

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	9.2	9.1	9.0	12.5
Domestic	mil.	5.8	6.0	6.6	7.0	6.9	6.7	15.5
Imported	mil.	2.2	2.4	2.2	2.2	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.2	1.5	1.8	1.5	-20.0
Factory shipments	mil.	5.0	6.0	6.7	7.3	7.0	6.8	36.0
Light-duty truck sales	mil.	2.1	1.9	2.4	2.4	2.3	2.3	9.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	9.0	9.4	9.3	9.5	9.6	9.5	5.6
Domestic	mil.	6.7	7.1	7.0	7.2	7.4	7.2	7.5
Imported	mil.	2.3	2.5	2.4	2.3	2.4	2.3	.0
Dealers inventories**	mil.	1.5	1.5	1.4	1.4	1.7	1.6	6.7
Factory shipments**	mil.	6.8	7.1	6.9	7.0	7.3	7.0	2.9
Light-duty truck sales	mil.	2.3	2.0	2.3	2.3	2.4	2.3	.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	9.5	9.4	9.6	9.5	9.8	9.6	1.1
Domestic	mil.	7.2	7.2	7.3	7.4	7.4	7.4	2.3
Imported	mil.	2.3	2.3	2.3	2.1	2.4	2.2	4.8
Dealers inventories**	mil.	1.6	1.7	1.5	1.8	1.9	1.7	6.3
Factory shipments**	mil.	7.0	7.3	7.2	7.4	7.6	7.4	5.7
Light-duty truck sales	mil.	2.3	2.2	2.3	2.4	2.0	2.2	-3.4

*Historical data (1) % change over previous year **Seas. not adjusted

year-earlier period. Last year was the worst for car sales as the total was just 5.76 million as compared to the best sales year of 1978 when 9.3 million U.S. autos were shipped.

U.S. automakers plan to build 62 percent more cars in the last quarter of this year than they did in the final part of 1982. KEDI agrees with those that see such plans as overly optimistic. A comparison is given here.

	Automakers plans for the 4th Quarter, 1983 (thousands of cars)	KEDI's forecast
GM	1130	1020
Ford	450	400
Chrysler	290	260
Others*	113	100

*AMC, VW, Honda

Some analysts look to auto sales of up to 10 million in 1984. That is simply too optimistic a total for both domestic and imported cars. The KEDI forecast for the total is at 9.5 million as was stated in paragraph one.

(Those that have reached the point where a new car has to be bought may increasingly find any leanings to buying American straightened by published research on the reliability, low repair, and low rust of certain imports plus glowing reports by current owners known. What is the affect on the reader of posters on some American car dealers walls saying "Toyota, From the people that brought you Pearl Harbor.")

1.50 BUDGETS

(Table 1.50 on page 19)

The forecast made at this Institute for the deficit for fiscal 1983 has been confirmed. It had been stated here that it would be under $200 billion. The red-ink total of $195.35 was quite a bit under the $209.8 billion the

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	304.7	297.7	304.2	286.7	306.1	298.7	-.3
Corporate prof. tax accruals	bil.$	46.5	48.6	59.8	64.8	69.1	60.6	30.3
Surplus/deficit	bil.$	-147.1	-183.3	-166.1	-182.0	-173.4	-176.2	-3.9
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.4	113.2	115.6	110.3	13.2
Corporate prof. tax accruals	bil.$	12.7	12.9	16.2	17.6	18.6	16.3	28.3
Surplus/deficit	bil.$	31.3	40.4	41.0	46.2	47.8	43.9	40.3

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	298.7	311.8	322.1	330.2	341.5	326.4	9.3
Corporate prof. tax accruals	bil.$	60.6	70.3	71.9	74.0	75.1	72.8	20.2
Surplus/deficit	bil.$	-176.2	-163.1	-158.2	-149.1	-137.1	-151.9	-13.8
State and local governments:								
Income taxes	bil.$	110.3	117.4	119.3	122.5	126.1	121.3	10.0
Corporate prof. tax accruals	bil.$	16.3	19.4	20.8	22.4	23.7	21.6	32.5
Surplus/deficit	bil.$	43.9	46.1	48.2	51.1	52.2	49.4	12.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	326.4	347.5	355.2	362.8	370.5	359.0	10.0
Corporate prof. tax accruals	bil.$	72.8	78.1	80.2	82.6	83.9	81.3	11.7
Surplus/deficit	bil.$	-151.9	-120.5	-117.4	-109.5	-97.0	-111.1	-26.9
State and local governments:								
Income taxes	bil.$	121.3	126.8	128.4	132.6	137.4	131.3	8.2
Corporate prof. tax accruals	bil.$	21.6	23.2	23.5	23.8	24.1	23.7	9.7
Surplus/deficit	bil.$	49.4	52.8	53.5	54.5	55.8	54.2	9.7

*Historical data (1) % change over previous year

Reagan administration forecast this summer.

From the White House comes the forecast for fiscal 1985 (starting October, 1984) of a deficit of $100 billion or possibly $120 billion. Both are viewed as off-the-mark here. KEDI projects the total at $136 billion.

KEDI does agree with the Administration that the time to hike the tax bite is in 1985--not 1984. That position has been maintained here for over six months.

There are no essential changes in the outlook for state and local budgets.

1.60 INCOME

(Table 1.60 on page 21)

There are revisions here in the forecast of income and profits. New forecast data show personal consumption expenditures taking a slightly larger portion of personal disposable income than anticipated previously. Corporate profits are somewhat increased in the projection mainly due to the upward move of automakers profits.

Personal income will expand by 6.6 percent this year, 8.0 percent next year, and 8.2 percent in 1985. In the previous forecast, these figures were 6.7, 8.3, and 8.3, respectively. Personal disposable income is now seen as growing by 7.4 percent this year, 8.3 percent next year, and 7.7 percent in 1985. (See Table 1.60)

The forecast for after-tax corporate profits is increased to 13.1 percent for this year (from 12.7 in the last issue); decreased for 1984 to 18.7 (from 23.3); and increased to 9.8 percent for 1985 (as opposed to 9.3 in the October issue].

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Personal income	bil.$	2578.6	2657.7	2713.6	2761.4	2820.8	2738.4	6.2
Personal disposable income	bil.$	2176.5	2255.9	2301.0	2361.5	2399.1	2329.4	7.0
Compensation of employees	bil.$	1865.7	1923.7	1968.7	2011.3	2062.0	1991.4	6.7
Corporate after tax profits	bil.$	115.1	108.2	127.2	137.8	148.2	130.4	13.3
Personal saving	bil.$	125.4	121.7	91.5	110.9	119.6	110.9	-11.6
Average weekly earnings	$	330.1	342.3	351.1	353.6	358.2	351.3	6.4

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Personal income	bil.$	2738.4	2879.4	2937.5	2991.5	3075.6	2971.0	8.4
Personal disposable income	bil.$	2329.4	2450.2	2496.1	2538.8	2608.0	2523.3	8.3
Compensation of employees	bil.$	1991.4	2107.5	2140.3	2185.4	2246.7	2170.0	9.0
Corporate after tax profits	bil.$	130.4	156.1	158.7	164.3	166.9	161.5	23.8
Personal saving	bil.$	110.9	128.5	141.3	150.6	144.4	141.2	27.3
Average weekly earnings	$	351.3	364.8	371.1	377.2	384.7	374.5	6.6

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Personal income	bil.$	2971.0	3129.7	3182.1	3253.1	3295.9	3215.2	8.2
Personal disposable income	bil.$	2523.3	2655.4	2698.5	2757.7	2788.0	2724.9	8.0
Compensation of employees	bil.$	2170.0	2280.3	2312.6	2351.7	2372.5	2329.3	7.3
Corporate after tax profits	bil.$	161.5	174.7	177.2	178.3	179.2	177.4	9.8
Personal saving	bil.$	141.2	156.8	161.3	159.7	156.7	158.6	12.3
Average weekly earnings	$	374.5	388.2	390.6	392.6	397.5	392.2	14.7

*Historical data (1) % change over previous year

INCOME

Personal saving will decline this year by 6.0 percent. In 1984, there will be some rebound as such savings are forecast by KEDI to go up 19.6 percent. The gain in 1985 for this category is barely changed to 8.3 percent from 8.4.

It is good news that personal income was up 0.9 percent in September. It helped raise spending by 1.5 percent that month. Average weekly earnings moved up for factory workers to $362.64 from the August level of $353.36

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

Developments in money and credit markets confirm both the short-term and long-term assumptions that have been maintained here for some time: Growth of the economy will continue in the next two years, and there will not be a new recession. Consequently, policy at the Federal Reserve has to remain firm so as not to allow excessive growth of money and credit.

The Fed will be in no hurry to ease policy. If there is any move at all to let the reins out a bit, it will be temporary. KEDI agrees with Paul Volcker that low inflation is a main goal.

It is expected at this Institute that some temporary easing will take place around the end of this year or in the first month of 1984. However, tightening of money and credit policy will return in a month or two. The second relaxing of policy is seen in the third quarter. Again, it will be temporary and mild.

Look for a steady growth in monetary and credit aggregates, in general, between now and the end of 1985. As can be seen in Table 1.70, the fastest

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Currency and demand deposits, M1	bil.$	473.5	490.3	505.2	516.8	520.1	508.1	7.3
Time deposits, adjusted, M2	bil.$	1918.2	2042.6	2095.1	2161.3	2190.7	2122.4	10.6
Consumer instal. credit	bil.$	343.4	342.6	353.0	361.0	370.9	370.9	8.0
Commerc. & indus. loans at banks	bil.$	392.2	397.8	395.9	397.8	400.8	400.8	2.2
Large denomination time dep.	bil.$	319.6	301.6	301.3	303.9	307.1	303.5	-5.0
Mortgages at S & L Assns.	bil.$	482.2	475.7	471.6	480.1	488.5	488.5	1.3

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Currency and demand deposits, M1	bil.$	508.1	525.8	531.1	542.7	550.2	537.5	5.8
Time deposits, adjusted, M2	bil.$	2122.4	2227.6	2289.5	2220.4	2396.5	2283.5	7.6
Consumer instal. credit	bil.$	370.9	373.8	380.5	388.4	397.2	397.2	7.1
Commerc. & indus. loans at banks	bil.$	400.8	402.2	405.3	409.9	412.6	412.6	2.9
Large denomination time dep.	bil.$	303.5	309.5	313.7	316.1	319.7	314.8	3.7
Mortgages at S & L Assns.	bil.$	488.5	490.1	494.7	500.1	503.4	503.4	3.1

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Currency and demand deposits, M1	bil.$	537.5	558.9	566.4	574.2	579.7	569.8	6.0
Time deposits, adjusted, M2	bil.$	2283.5	2439.8	2510.6	2606.1	2696.4	2563.2	12.2
Consumer instal. credit	bil.$	397.2	401.2	406.1	411.2	418.9	418.9	5.5
Commerc. & indus. loans at banks	bil.$	412.6	413.8	414.9	416.3	417.8	417.8	1.3
Large denomination time dep.	bil $	314.8	322.6	327.1	329.9	335.2	328.7	4.4
Mortgages at S & L Assns.	bil.$	503.4	504.2	506.1	508.7	510.9	510.9	1.5

*Historical data (1) % change over previous year

growth is projected for consumer installment credit and time deposits. Commercial and industrial loans will grow slowly next year and gain a bit more in expansion pace in 1985. Growth of M1 will remain moderate over the next two years.

1.80 INTEREST RATES, YIELDS, SECURITIES PRICES

(Table 1.80 on page 25)

Analysis of forecast data show there will not be any particular reason for the red to change its policy much during the rest of this year and into 1985. KEDI forecast data show interest rates being fairly stable through 1985 with a slight downward move. For instance, the prime rate is seen as averaging 10.85 in the last quarter of this year and 10.20 in the final quarter of 1985. The conventional mortgage rate is seen as being at 13.12 as an average in the fourth quarter of this year, 12.65 toward the end of 1984, and 12.04 in the final quarter of 1985.

KEDI agrees with Allen Sinai of Lehman Brothers Kuhn Loeb Inc. in the view that "There is no reason for the Fed to ease credit, and there is no reason for the Fed to tighten." (The Wall Street Journal, October 10, 1983, page 27.) The view of Michael K. Evans that it will be fairly clear sailing over the next five quarters, and the opinion of Alan Greenspan that there will be little change during the rest of this year is shared here.

The forecast of the stock market remains the same--a generally good performance is expected in the next two years.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	10.20	8.11	8.40	9.32	9.58	8.85	-13.2
Prime rate	%	14.86	10.82	10.50	10.80	10.92	10.76	-27.6
Conventional mortgages rate	%	15.57	13.26	13.16	13.19	13.08	13.17	-15.4
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.49	12.56	12.08	-12.4
20 years Govt. bonds yield	%	12.70	10.87	10.81	11.62	11.73	11.26	-11.4
Standard & Poor's 500 avg.	1941-43=100	119.75	147.94	162.73	163.14	160.54	158.59	32.4

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.85	9.42	9.31	9.04	8.92	9.17	3.6
Prime rate	%	10.76	10.72	10.51	10.05	10.01	10.32	-4.1
Conventional mortgages rate	%	13.17	12.96	12.83	12.67	12.41	12.72	-3.4
Aaa corporate bonds rate	%	12.08	12.52	12.43	12.27	12.16	12.35	2.2
20 years Govt. bonds yield	%	11.26	11.69	11.82	11.76	11.60	11.72	4.1
Standard & Poor's 500 avg.	1941-43=100	158.59	156.20	154.13	161.27	166.34	159.49	.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	9.17	8.85	8.94	9.03	9.06	8.97	-2.2
Prime rate	%	10.32	10.04	10.23	10.31	10.43	10.25	-.7
Conventional mortgages rate	%	12.72	12.36	12.51	12.47	12.16	12.38	-2.7
Aaa corporate bonds rate	%	12.35	12.24	12.38	12.62	12.74	12.50	1.2
20 years Govt. bonds yield	%	11.72	11.83	12.24	12.18	12.11	12.09	3.1
Standard & Poor's 500 avg.	1941-43=100	159.49	167.21	161.14	158.49	157.21	161.01	.1

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, GNP in current dollars for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.5, May 1983 (U.S. Department of Commerce, Washington, D.C., monthly.) Forecast data rae in Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982.)

The following table shows the predictions of forecasters abd deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(GNP in current dollars, 1982)

Actual Figure: 3059.3 bil.$

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts	% of Accuracy
Prudential	11/30/81	3159.0	6	3.3
National Securities and Research Corporation	12/81	3169.4	6	3.6
U.S. Trust Company, N.Y.	12/81	3189.5	8	4.3
Calvin C. Myers, The Merchants National Bank of Aurora	12/4/81	3143.0	8	2.7
Walter D. Fackler, University of Chicago	12/9/81	3090.0	10	1.0
United Business Service	12/14/81	3197.0	10	4.5
J.A. Livingston	12/27/81	3150.0	12	3.0
Georgia State	11/81	3156.2	15	3.2
Peter L. Bernstein, Inc.	11/1/81	3120.0	16	2.0
Harris Trust and Savings Bank	11/11/81	3092.5	17	1.1
Chemical Bank	11/19/81	3168.0	18	3.6
ASA and NBER	12/81	3170.5	19	3.6
UCLA	12/81	3070.9	20	.4
Metropolitan Life Insurance Co.	12/1/81	3212.9	21	5.0
Paul C. Harmon, Armco	12/4/81	3182.2	22	4.0
Standard & Poor's Corporation	12/10/81	3164.0	24	3.4
Manufacturers Hanover Trust	12/11/81	3114.1	25	1.8
Fidelity Bank	12/18/81	3161.1	26	3.3
Cities Service Company	12/31/81	3156.2	27	3.2
KEDI	1/1/82	3133.1	28	2.4
Morgan Guaranty Trust Company	1/7/82	3139.8	30	2.6

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product	SCB, Table 1.2
	Personal consumpt. expend.	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Government purchases of goods and services:	
	Federal	SCB, Table 1.2
	State and local	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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President: Dr. Vladimir J. Simunek

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This forecast uses the November, 1983, U.S. Department of Commerce second estimates of 1983:3 National Income and Product data, and the 1982 benchmark revision data. Also used is the November 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Expect growth to continue into 1987. Expansion in 1984 will be moderate with more rapid growth in the latter part of the year than in the first part. Real GNP is seen as being 4.7 percent higher next year. REAL GROWTH The mixed news is just what the doctor ordered. The declines in building and the slowing of gains in the factory operating rate are signs of adjustment needed to cool growth so it can be more sustainable. Increases in orders point to continued recovery. PRICES Inflation is at a moderate pace and will not be excessive in 1984. EMPLOYMENT The drop in joblessness to 8.8 percent was rather sharp. Future declines will be more moderate. In late 1984, expect it to average about 7.9 percent. HOUSING The downward moves of late confirm the forecast. Next year, gains will just edge above those recorded this year. AUTOS The industry is seen as getting stronger throughout the coming year and into 1985. BUDGETS Deficit reduction was recorded in October. KEDI agrees with some tax hikes in 1985 when recovery is firm. Adequate funds exist to finance recovery without pressuring interest rates despite deficit size. INCOME Gains here will not rekindle inflation. Corporate profits will move ahead even more in 1984. MONEY AND CREDIT Federal Reserve policy has to remain on the strigent side. It will not be so tight as to squeeze the life out of recovery by any means. Recovery will continue on a moderate scale. INTEREST RATES They will remain generally high.

1.02 OVERVIEW

Next year will show another period of improvement. Look for more rapid growth in the second half followed by some slowing in 1985. During 1984, there will be increased production, lower unemployment, stable (though high) interest rates, and stability in the cost of living.

However, 1984 will not be a spectacular year. KEDI agrees with the chairman of U.S. Steel, David Roderick, in his statement, "The capital-goods sector is going to improve in 1984, but nobody is anticipating a major boom." (Time, Nov. 28, pg. 59)

KEDI looks to real GNP increasing close to 4.7 percent in 1984. The capacity utilization rate is seen as improving by 9.0 percent to approximately 82 percent over the current year average. (See Table 1.11, Selected Indicators of Real Growth)

The view of Irwin L. Kellner of Manufacturers Hanover Trust that growth will be at a more sustainable pace next year as opposed to the over-heated rate of the middle part of this year is shared here. Interest rates and inflation will not be escalating.

Problems will remain. Because of the high value of the dollar, exports will remain a trouble. Machine tools and farm machinery will not be totally out of the woods. Coal mining and energy exploration are seen as remaining weak.

Even with those problem areas, expansion currently under way will continue next year. Difficulties will not pop up until 1985. Even then, there will not be a recession. Growth will just slow.

Most economists tend to predict that what is happening today will continue tomorrow--more or less. For 1984, KEDI agrees. Beyond that, KEDI does not agree.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1485.4	1534.7	1725.8	1798.7
Index of industrial production	1967= 100	138.5	147.4	155.7	166.9
Capacity utilization	%	81.8	75.3	81.2	83.5
Unemployment rate	%	9.7	9.6	8.0	7.5
Private housing starts	mil.	1.061	1.670	1.561	1.812
Car sales	mil.	8.0	9.0	9.3	9.9
Implicit GNP price deflator	1972= 100	206.9	215.5	253.1	267.3
Consumer price index	1967= 100	288.6	298.4	344.8	366.9
Producer price index*	1967= 100	230.6	285.3	338.7	365.9
Federal deficit	bil.$	-147.1	-177.3	-75.6	-47.2
Personal income	bil.$	2578.6	2739.1	3405.2	3659.8
Prime rate	%	14.86	10.76	10.04	11.14
Mortgage rate	%	15.57	13.17	13.79	12.02
Currency plus demand deposits	bil.$	473.5	507.6	601.2	640.7
Commercial and industrial loans	bil.$	392.2	400.8	425.2	439.7

* Finished goods

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No. 1 and No. 3 have been updated.

1. In 1984, it is expected the weighted price of oil will be $30 per barrel; in 1985 it will go up to $31 per barrel; in 1986, to $33 per barrel; in 1987, to $37 per barrel; and in 1988, $40 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1985 or 1986.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In 1984, stabilizing is expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are anticipated.

The December 1983 KEDI forecast is highlighted on page 3.

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The forecast is not changed. Expect real growth this year to be 3.3 percent. In 1984, it is seen as being 4.7 percent.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1485.4	1490.1	1525.1	1553.6	1568.3	1534.3	3.3
Index of industrial product.	1967=100	138.6	138.5	144.5	151.7	154.7	147.4	6.3
Unemployment rate	%	9.7	10.6	10.1	9.4	8.6	9.6	-.9
Capacity utilization rate	%	81.8	71.2	73.9	77.2	79.1	75.3	-2.9
Private housing starts	mil, units	1.061	1.694	1.684	1.793	1.510	1.670	57.4
Car sales	mil. units	8.0	8.4	8.8	9.0	9.2	9.0	12.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1534.3	1585.2	1595.5	1610.9	1636.4	1607.0	4.7
Index of industrial product.	1967=100	147.4	157.9	161.1	165.5	168.0	163.1	10.7
Unemployment rate	%	9.6	8.5	8.2	8.0	7.9	8.1	-15.5
Capacity utilization rate	%	75.3	79.9	81.8	82.9	83.7	82.1	9.0
Private housing starts	mil. units	1.670	1.463	1.837	1.913	1.650	1.716	2.8
Car sales	mil. units	9.0	9.4	9.3	9.5	9.6	9.5	5.6

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1607.0	1648.2	1658.9	1675.4	1687.1	1667.4	3.7
Index of industrial product.	1967=100	163.1	170.5	171.3	172.7	173.0	171.9	5.4
Unemployment rate	%	8.1	7.7	7.6	7.2	7.2	7.4	-8.8
Capacity utilization rate	%	82.1	84.0	84.5	84.8	84.6	84.5	2.9
Private housing starts	mil. units	1.716	1.665	1.775	1.729	1.559	1.683	-1.9
Car sales	mil. units	9.5	9.4	9.6	9.5	9.8	9.6	1.1

*Historical data (1) % change over previous year

REAL GROWTH

Recent statistics point to slowing of the overheated pace of the second quarter and third quarter.

1. Building awards fell by 2 percent in September from the prior month, seasonally adjusted. Again, in October these awards went down--this time, by 3 percent.

2. Housing starts were off in both September and October. The rise in mortgage rates were cited as a factor in slowing the pace. Still, housing this year has been well above the sad pace of 1982.

3. The factory operating rate has been moving ahead, but it has slowed. It had gained 0.9 percentage points in both August and September. The gain in October was at a slower pace of 0.5 percentage points to 78.6 percent. The average for the 1967 to 1982 rate was 82.4 percent.

4. Industrial production was up by 0.8 percent in October. That is down from the 1.3 percent increase in each of the prior two months.

The following developments indicate stronger growth in 1984. The pace that year will not lead the Fed to ease credit policy.

1. Factory orders for big-ticket items moved ahead in October. They gained 3 percent. The October total of $93.7 billion in new orders set a record. Backlogs were up also.

2. One giant step for machine tool orders was taken in October. There was a whopping increase of 70 percent over the year-earlier total. Even though orders here remain well below the monthly average of the 1979-80 period, the improvement is substantial. Shipments here have been moving up for three months.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Gross national product	bil.$	1485.4	1490.1	1525.1	1553.6	1568.3	1534.3	3.3
Personal cons. expenditures	bil.$	970.2	976.3	1010.6	1018.0	1022.9	1007.0	3.8
Gross private dom.investment	bil.$	194.5	196.7	210.2	229.4	240.1	219.1	12.6
Net exports	bil.$	29.4	24.6	12.3	10.4	8.2	13.9	-52.7
Government. purchases:								
Federal	bil.$	116.4	117.9	117.6	119.3	119.5	118.6	1.9
State and local	bil.$	174.9	174.6	174.5	176.5	177.8	175.9	.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil.$	1534.3	1585.2	1595.5	1610.9	1636.4	1607.0	4.7
Personal cons. expenditures	bil.$	1007.0	1031.2	1035.4	1044.7	1063.5	1043.7	3.6
Gross private dom.investment	bil.$	219.1	250.1	254.1	259.7	263.1	256.8	17.2
Net exports	bil.$	13.9	5.2	4.8	3.7	3.9	4.4	-68.4
Government purchases:								
Federal	bil.$	118.6	120.5	122.3	123.5	125.0	122.8	3.6
State and local	bil.$	175.9	178.2	178.9	179.3	180.9	179.3	1.9

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil.$	1607.0	1648.2	1658.9	1675.4	1687.1	1667.4	3.7
Personal cons. expenditures	bil.$	1043.7	1066.1	1068.2	1080.1	1083.0	1074.4	3.0
Gross private dom.investment	bil.$	256.8	270.2	275.4	277.6	281.9	276.3	7.8
Net exports	bil.$	4.4	4.2	4.8	5.1	5.9	5.0	13.7
Government purchases:								
Federal	bil.$	122.8	126.0	127.1	128.2	130.1	127.9	4.1
State and local	bil.$	179.3	181.7	183.4	184.4	186.2	183.9	2.6

*Historical data (1) % change over previous year

REAL GROWTH

3. Factory orders gained for the second month in a row. Orders increased by 1.5 percent in September and 1.6 percent in August.

4. Iron Age reported steel orders are heavy for December. It estimated fourth quarter shipments at an annual rate of 74 million tons if there is no downward move in December.

5. The Conference Board reported optimism among business leaders in the third quarter. Confidence measured 73 on the scale of 100.

6. Purchasing managers see the economy as moving ahead according to a November poll. Managers reported employment up for the sixth month in a row and new orders improving for the ninth consecutive month.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast for the change in the CPI for 1983 remains at 3.3 percent. There is a small increase for 1984 over the current year as inflation is forecast at 4.8 percent versus 4.6 percent in the last issue.

Prices in October rose 0.4 percent. Many economists see no reason to fear inflation will escalate. KEDI agrees. The current rates and the rates for the near future are moderate compared to what we all lived with in recent years. There are a number of reasons why inflation will not zoom ahead.

1. Energy prices will record very small increases next year. Crude oil prices have been fairly static. They are seen as being close to their current levels for the next year. A modest gain in demand in this country is not expected to fuel price hikes.

1.21 PRICES
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967= 100	288.6	292.5	296.1	299.8	304.6	298.4	3.5
Producer price index,n.s.a.**	1967= 100	280.6	283.7	284.9	285.4	287.1	285.3	1.7
Price deflators:								
GNP	1972= 100	206.9	212.8	214.5	216.3	218.5	215.5	4.2
Personal cons. expenditures	1972= 100	205.3	209.0	212.4	214.4	216.3	213.0	3.8
Gross private dom.investment	1972= 100	213.1	212.9	214.1	217.2	221.3	216.4	1.5
Federal purchases	1972= 100	221.9	230.0	232.7	233.8	235.2	232.9	5.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967= 100	298.4	306.9	311.2	313.9	317.8	312.5	4.7
Producer price index,n.s.a.**	1967= 100	285.3	293.0	297.0	302.1	307.9	299.8	5.1
Price deflators:								
GNP	1972= 100	215.5	221.8	224.4	226.9	231.0	226.0	4.9
Personal cons. expenditures	1972= 100	213.0	219.0	221.6	223.0	226.4	222.5	4.5
Gross private dom.investment	1972= 100	216.4	224.7	228.9	231.5	236.8	230.5	6.5
Federal purchases	1972= 100	232.9	238.2	240.3	243.5	247.1	242.3	4.0

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967= 100	312.5	321.0	324.8	329.7	335.6	327.8	4.9
Producer price index,n.s.a.**	1967= 100	299.8	311.8	317.2	322.4	326.5	319.5	6.6
Price deflators:								
GNP	1972= 100	226.0	234.0	237.5	240.8	243.4	238.9	5.7
Personal cons. expenditures	1972= 100	222.5	228.9	232.0	235.3	237.8	233.5	4.9
Gross private dom.investment	1972= 100	230.5	240.5	244.8	248.7	252.3	246.6	7.0
Federal purchases	1972= 100	242.3	250.9	254.2	257.6	260.2	255.7	5.5

*Historical data (1) % change over previous year **Finished goods

PRICES

2. Labor costs will be moderate in growth. KEDI shares the view of the Conference Board that wage increases can be held to the 5 percent range in 1984.

3. Imports will continue to supply cheap raw materials and other products.

4. Productivity has been improving. This will continue next year.

5. Producer prices were up just 0.3 percent in October. They were 1.3 percent above the October, 1982, level. That was the smallest yearly gain since 1967. No spectacular price increases are expected to take place in the next year.

KEDI does not agree with the minority of economists that see high inflation ahead. Milton Friedman is one of those. He points to the money-supply surge in the first part of this year as making renewed inflation inevitable. This Institute certainly does not agree with those that look to double-digit inflation in 1985.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

In 1984 nominal GNP will increase by approximately 9.8 percent, and in 1985 by 9.7 percent. The 1985 increment will be due, to a large extent, to prices. KEDI expects that in 1985 the price level will move up faster than in 1984--the forecast data for GNP price deflator show 5.7 percent increase compared to 4.9 percent increase in 1984.

Gross private domestic investment will be the fastest growing component of nominal GNP. It includes investments into plant, equipment, and structures, the residential and nonresidential construction, and changes in inventories. While the residential construction will remain essentially flat in the next year, possibly, it may decline slightly in 1985. The business investment

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Gross national product	bil.$	3073.0	3171.5	3272.0	3360.3	3427.5	3307.8	7.6
Personal cons. expenditures	bil.$	1991.9	2069.4	2147.0	2182.9	2212.5	2153.0	8.1
Gross private dom. investment	bil.$	414.5	404.1	450.1	498.2	531.3	470.9	13.6
Net exports	bil.$	17.4	20.5	-8.3	-20.2	-25.7	-8.4	-
Government purchases:								
Federal	bil.$	258.7	273.5	273.7	278.9	281.1	276.8	7.4
State and local	bil.$	390.5	404.0	409.7	420.6	428.3	415.7	6.4

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product	bil.$	3307.8	3516.2	3580.8	3655.4	3780.2	3633.2	9.8
Personal cons. expenditures	bil.$	2153.0	2258.3	2294.4	2329.7	2407.8	2322.6	7.9
Gross private dom. investment	bil.$	470.9	562.0	581.6	601.2	623.0	592.0	25.7
Net exports	bil.$	-8.4	-23.9	-29.7	-24.3	-19.7	-24.4	-
Government purchases:								
Federal	bil.$	276.8	287.0	293.9	300.7	308.9	297.6	7.5
State and local	bil.$	415.7	432.8	440.6	448.1	460.2	445.4	7.2

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil.$	3633.2	3857.3	3939.2	4035.1	4107.0	3984.7	9.7
Personal cons. expenditures	bil.$	2322.6	2440.3	2478.2	2541.5	2575.4	2508.9	8.0
Gross private dom. investment	bil.$	592.0	649.8	674.2	690.4	711.2	681.4	15.1
Net exports	bil.$	-24.4	-17.1	-10.4	-7.2	-6.8	-3.8	-
Government purchases:								
Federal	bil.$	297.6	316.1	323.1	330.2	338.5	327.0	9.9
State and local	bil.$	445.4	468.2	474.1	480.2	488.7	482.3	8.3

*Historical data. (1) % change over previous year into plants, equipment, and structures will grow significantly throughout that period. KEDI expects that in 1984 nominal value of such investment will go up by approximately 18 percent when compared to 1983, and by 13 percent in 1985 over 1984.

Personal consumption expenditures will increase by approximately 8 percent in 1984 when compared to 1983, and by another 8 percent in 1985 over 1984. That is a good pace although not as fast as it has been this year.

The projection of foreign trade remains pessimistic. It will be in the red throughout the entire 1984-1985 period. Look for some improvements to take place no earlier than the end of 1985.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The October jobless rate was down to 8.8 percent --the lowest rate in 20 months. That is good news. It represented a drop of one-half a percentage point from the September rate. It was the lowest rate since February of 1982.

The Reagan budget forecast had predicted average joblessness as being 10.4 percent for the fourth quarter back in January of this year. To be fair, KEDI looked to a rate of 9.4 percent for the last part of this year in the January forecast of this publication. That was not nearly as pessimistic as the Administration. Currently, the average rate for the last three months of this year is seen as being 8.6 percent by KEDI.

No dramatic drops are seen in the future. Steady and slow declines will be more of the norm. The unemployment rate is seen as averaging close to

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	235.1	232.9	1.4
Civilian labor force	mil.	110.2	110.5	111.1	112.4	114.5	112.1	1.7
Employment	mil.	99.5	99.1	100.0	101.8	104.6	101.4	1.9
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	96.1	95.7	96.6	98.4	101.2	98.0	2.0
Unemployment rate	%	9.72	10.34	10.10	9.43	8.63	9.63	-.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	2.0
Civilian labor force	mil.	112.1	115.0	115.8	116.9	117.7	116.4	3.8
Employment	mil.	101.4	105.3	106.3	107.5	108.4	106.9	5.4
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	98.0	101.9	102.9	104.1	105.0	103.5	5.6
Unemployment rate	%	9.63	8.47	8.21	8.02	7.87	8.14	-15.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.7	1.9
Civilian labor force	mil.	116.4	118.9	120.2	122.7	124.8	121.7	4.5
Employment	mil.	106.9	109.8	111.0	113.9	116.5	112.8	5.5
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	103.5	106.4	107.7	110.5	113.1	109.4	5.7
Unemployment rate	%	8.14	7.67	7.62	7.18	7.23	7.43	-8.8

*Historical data (1) % change over previous year

8.14 percent in 1984. It will continue to move down during the following year as it reaches an average of 7.43 percent.

The average non-farm workweek remained at the same level in October as in September: 35.2 hours. Factory overtime was unchanged at 3.3 hours.

1.41 HOUSING

(Table 1.41 on page 15)

The declines in housing starts in the last two months have been confirming the forecast maintained here. In October, starts fell to an adjusted annual rate of 1.6 million units from the September rate of 1.67 million--a 3.8 percent decline. Between August and September, a drop of 11.7 percent was recorded. Again, the pace was just too high to be sustained.

In October, single-family starts were off by 7.2 percent while apartment starts rose 1.7 percent. KEDI does agree with the economist, Mr. Robert Sheehan, that housing in 1984 will match or exceed the 1983 strong performance. Calculations here show that while this year, housing will climb almost 60 percent over the deep pit of 1982 total starts, next year they will be up by close to 3 per cent for single-family starts and about 2 percent for multifamily unit starts.

Building permits increased by 3.9 percent in October to an adjusted annual rate of 1.565 million. That points to future strength in housing.

After three months of declines, new-home sales jumped ahead by 13.7 percent in September. Part of the gain was attributed to rather aggressive marketing.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.656	1.079	1.099	1.069	.898	1.036	58.0
Multifamily housing starts	mil.	.405	.615	.585	.724	.612	.634	57.0
Mobile home shipments	mil.	.239	.281	.293	.278	.261	.278	16.4
Permits authorized	mil.	1.000	1.464	1.639	1.647	1.509	1.565	56.5
1-family unit** price, new	tho.$	83.8	86.7	88.9	90.5	92.9	89.8	7.2
1-family unit** price, existing	tho.$	80.4	80.5	82.6	84.1	86.5	83.4	3.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.036	.881	1.188	1.221	.987	1.069	3.2
Multifamily housing starts	mil.	.634	.582	.649	.692	.663	.647	2.0
Mobile home shipments	mil.	.278	.270	.283	.289	.273	.279	.3
Permits authorized	mil.	1.565	1.356	1.618	1.705	1.620	1.575	.6
1-family unit** price, new	mil.	89.8	94.3	96.5	98.1	100.8	97.4	8.5
1-family unit** price, existing	tho.$	83.4	88.2	90.6	91.5	92.7	90.8	8.8

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.069	.892	1.136	1.108	.886	1.006	-5.9
Multifamily housing starts	mil.	.647	.614	.658	.689	.611	.643	.0
Mobile home shipments	mil.	.279	.258	.261	.240	.235	.249	-10.9
Permits authorized	mil.	1.575	1.407	1.514	1.489	1.324	1.434	-9.9
1-family unit** price, new	tho.$	97.4	103.1	105.8	107.2	109.6	106.4	9.3
1-family unit** price, existing	tho.$	90.8	94.2	96.2	97.5	98.9	96.7	6.5

*Historical data (1) % change over previous year **Not seas. adjusted

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast is slightly increased by one-tenth of a percent for fourth quarter auto sales. They are now seen as being at an annual rate of 9.2 million.

Sales of new cars were off by 6.4 percent in the middle of November from the year-earlier level. Somewhat weaker demand plus some shortages were cited as reasons. Demand for larger cars and middle-sized ones had exceeded supplies temporarily. The small decline in demand is not viewed as the start of a trend here. Sales will generally remain strong for the rest of this year and into 1985.

KEDI sticks to its prediction of no gains in the share of the market taken by imports. Japan has agreed to extend restraints on autos exported to the U.S. A shortage of Japanese cars will continue. (Toyotas leave the lot almost the same day they arrive, for example.) For fiscal 1984 beginning in April of next year, the new agreement limits Japanese imports to 1.85 million. Their share of the U. S. market is expected to remain at about 18 percent.

1.50 BUDGETS

(Table 1.50 on page 19)

Good news. The deficit was lowered a bit in October. It shrank to $25.07 billion.

KEDI agrees with Martin Feldstein of the Council of Economic Advisers that there should be enactment now of spending cuts and tax increases

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	9.2	9.2	9.0	12.5
Domestic	mil.	5.8	6.0	6.6	7.0	7.0	6.7	15.5
Imported	mil.	2.2	2.4	2.2	2.2	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.2	1.5	1.9	1.5	-20.0
Factory shipments	mil.	5.0	6.0	6.7	7.3	7.0	6.8	36.0
Light-duty truck sales	mil.	2.1	1.9	2.4	2.4	2.3	2.3	9.5

Indicator	Unit	1983			1984		1984	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	9.0	9.4	9.3	9.5	9.6	9.5	5.6
Domestic	mil.	6.7	7.1	7.0	7.2	7.4	7.2	7.5
Imported	mil.	2.3	2.5	2.4	2.3	2.4	2.3	.0
Dealers inventories**	mil.	1.5	1.6	1.4	1.4	1.7	1.6	6.7
Factory shipments**	mil.	6.8	7.1	6.9	7.0	7.3	7.0	2.9
Light-duty truck sales	mil.	2.3	2.0	2.3	2.3	2.4	2.3	.0

Indicator	Unit	1984			1985		1985	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	9.5	9.4	9.6	9.5	9.8	9.6	1.1
Domestic	mil.	7.2	7.2	7.3	7.4	7.4	7.4	2.3
Imported	mil.	2.3	2.3	2.3	2.1	2.4	2.2	4.8
Dealers inventories**	mil.	1.6	1.7	1.5	1.8	1.9	1.7	6.3
Factory shipments**	mil.	7.0	7.3	7.2	7.4	7.6	7.4	5.7
Light-duty truck sales	mil.	2.3	2.2	2.3	2.4	2.0	2.2	-3.4

*Historical data (1) % change over previous year **Seas. not adjusted

that will begin to take place in 1985. That has been the position here for over a year. That is, the time for tax increases is when the recovery is well under way.

As part of a deficit reducing package, a contingency tax has been proposed including a $5 tax added for each barrel of oil sold and a 5 percent surchage on individual and corporate taxes to take effect in fiscal 1986-88. KEDI supports this plan.

Again, it has been stated here many times, there is no direct relationship between the size of the deficit and interest rates. Recently, the deficit has moved one way and interest rates the other direction.

It has been maintained here for over a year that there are adequate funds in the private sector to meet the credit needs of individuals and corporations without driving up interest rates. Others have erroneously maintained the old idea that "high" deficits mean a shortage of funds for lending as the government gobbles up money in the profusion of red ink.

Part of the confusion is in the way different government branches count savings. The Federal Reserve recently reported that personal savings were at an annual rate of $209 billion in the second quarter of this year. At the same time, the Commerce Department reported such savings as being close to just $92 billion.

THAT IS A GAP OF OVER $100 BILLION! KEDI continues to state that there is no "outcrowding." This Institute has been aware for a long time that there are adequate savings in the private sector to provide financing for economic growth. The Fed is closer to the mark in its savings count.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	304.7	297.7	304.2	286.9	306.0	298.7	.3
Corporate prof. tax accruals	bil.$	46.5	48.6	59.8	66.8	72.5	61.9	33.2
Surplus/deficit	bil.$	-147.1	-183.3	-166.1	-188.5	-171.4	-177.3	-3.3
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.4	113.2	115.9	110.4	13.3
Corporate prof. tax accruals	bil.$	12.7	12.9	16.2	18.4	19.1	16.7	29.1
Surplus/deficit	bil.$	31.3	40.4	41.0	55.3	56.8	48.4	19.8

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	298.7	314.9	327.1	336.8	343.7	330.6	10.7
Corporate prof. tax accruals	bil.$	61.9	75.2	78.4	80.3	82.6	79.1	27.8
Surplus/deficit	bil.$	-177.3	-164.7	-160.3	-150.8	-139.6	-153.9	-13.2
State and local governments:								
Income taxes	bil.$	110.4	119.1	121.5	124.7	128.7	123.5	11.9
Corporate prof. tax accruals	bil.$	16.7	20.1	22.5	24.7	26.4	23.4	40.3
Surplus/deficit	bil.$	48.4	59.7	61.6	64.3	67.5	63.3	30.7

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	330.6	350.1	357.2	364.7	372.8	361.2	9.3
Corporate prof. tax accruals	bil.$	79.1	83.8	85.7	87.2	90.4	86.8	9.7
Surplus/deficit	bil.$	-153.9	-121.2	-118.1	-110.2	-98.1	-111.9	-27.3
State and local governments:								
Income taxes	bil.$	123.5	130.7	132.4	134.5	138.2	134.0	8.5
Corporate prof. tax accruals	bil.$	23.4	28.1	29.0	30.1	31.4	29.7	26.9
Surplus/deficit	bil.$	63.3	69.5	71.2	73.4	76.1	72.6	14.6

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.60 on page 21)

The forecast of average weekly earnings remains essentially the same. (See Table 1.60)

Projected Increase in Manufacturing
Workers Weekly Income
over Prior Year

1983	+6.3%
1984	+6.5%
1985	+4.2%

Such gains do not show any big threat of renewed inflationary pressures. KEDI views the Conference Board figure of 5 percent for wage gains in 1984 as a bit low. However, their view of the unit labor costs going up by 3 per cent (after adjustment for productivity) is shared here.

Personal income moved ahead again in October. The increase was 1.2 percent. That was the largest increase in over two years.

Corporate profits, after taxes, will also rise. That gain will be healthy and has been forecast here for quite some time. However, the increases are not seen at KEDI as being as spectacular as they are by some other economists. This Institute's projection is as follows:

Corporate Profits, Gain over Previous Year

1983	+14.3%
1984	+22.2%
1985	+9.7%

The main winners with profits over 15 percent higher in 1984 than in 1983 will be as follows: autos and auto equipment, airlines, petroleum products, office equipment and computers, and machine tools.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Personal income	bil.$	2578.6	2657.7	2713.6	2763.2	2821.8	2739.1	6.2
Personal disposable income	bil.$	2176.5	2255.9	2301.0	2363.1	2399.8	2323.0	7.0
Compensation of employees	bil.$	1865.7	1923.7	1968.7	2011.9	2061.8	1991.4	6.7
Corporate after tax profits	bil.$	115.1	108.2	127.2	141.9	148.9	131.6	14.3
Personal saving	bil.$	125.4	121.7	91.5	115.5	121.7	112.6	-10.2
Average weekly earnings	$	330.1	342.3	351.5	353.6	356.4	350.9	6.3

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2739.1	2887.3	2951.5	3007.1	3100.9	2986.7	9.0
Personal disposable income	bil.$	2323.0	2453.3	2502.0	2545.6	2628.5	2532.6	9.0
Compensation of employees	bil.$	1991.4	2104.2	2135.2	2179.7	2239.4	2164.6	8.7
Corporate after tax profits	bil.$	131.6	155.0	158.2	163.1	166.8	160.8	22.2
Personal saving	bil.$	112.6	127.9	140.2	145.7	149.3	140.8	25.0
Average weekly earnings	$	350.9	364.1	370.5	376.6	384.1	373.8	6.5

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Personal income	bil.$	2986.7	3150.8	3203.0	3277.3	3322.1	3228.3	8.4
Personal disposable income	bil.$	2532.6	2670.0	2713.4	2778.1	2811.2	2743.2	8.3
Compensation of employees	bil.$	2164.6	2275.3	2306.1	2347.1	2369.1	2324.4	7.4
Corporate after tax profits	bil.$	160.8	173.2	176.7	177.2	178.4	176.4	9.7
Personal saving	bil.$	140.8	156.7	160.1	159.8	157.3	158.5	12.6
Average weekly earnings	$	373.8	386.5	388.1	390.0	394.1	389.7	4.2

*Historical data (1) % change over previous year

INCOME

After-tax profits expansion over 1983 in the range of 10-15 percent are expected by KEDI in these areas: chain stores, electrical equipment, food products, rubber, textiles, banks, chemicals, and building materials. Farm equipment will move out of the red in 1984.

Areas with problems remaining will be mining, steel, nonferrous metals processing, energy exploration, and furniture.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

All indications point to a Federal Reserve policy that will not loosen. There is no room for that—either in the rest of this year or during 1984.

There is good reason for emphasizing the money supply in connection with easing or tightening of Fed policy. Changes in the money supply, M1, ARE TOO FREQUENT TO FORM A SOLID BASE FOR LONG-TERM DECISIONS ON MONETARY AND CREDIT POLICIES.

One week, M1 drops. The next week it goes up followed by a downward move the week after. So it goes. To change Federal Reserve policy with such moves would be ridiculous.

KEDI agrees with Alan C. Lerner of Bankers Trust Co. that "It is misleading, though, to concentrate on a single reserve aggregate, especially one that is subject to a number of technical swings, and then elevate that statistic to the pantheon of monetary policy." (*The Wall Street Journal*, November 29, '83)

KEDI assumes that the Federal Reserve will have to pursue a restrictive policy based not on M1, or M2, or M3, but on such indicators as actual

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	473.5	490.3	505.2	515.6	519.4	507.6	7.2
Time deposits, adjusted, M2	bil.$	1918.2	2042.6	2095.1	2136.2	2187.3	2115.3	10.3
Consumer instal. credit	bil.$	343.4	342.6	353.0	361.0	372.1	372.1	8.4
Commerc. & indus. loans at banks	bil.$	392.2	397.8	395.9	397.8	400.8	400.8	2.2
Large denomination time dep.	bil.$	319.6	301.6	301.3	303.9	307.1	303.5	-5.0
Mortgages at S & L Assns.	bil.$	482.2	475.7	471.6	480.1	489.7	489.7	1.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	507.6	525.9	531.6	543.8	553.1	538.6	6.1
Time deposits, adjusted, M2	bil.$	2115.3	2234.5	2297.6	2228.9	2410.1	2292.8	8.4
Consumer instal. credit	bil.$	372.1	374.1	382.1	390.2	399.8	399.8	7.4
Commerc. & indus. loans at banks	bil.$	400.8	403.5	407.2	412.2	417.6	417.6	4.2
Large denomination time dep.	bil.$	303.5	309.6	314.1	317.0	321.5	315.6	4.0
Mortgages at S & L Assns.	bil.$	489.7	491.5	495.0	501.6	506.1	506.1	3.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	538.6	559.7	567.8	577.3	583.1	572.0	6.2
Time deposits, adjusted, M2	bil.$	2292.8	2439.6	2509.7	2587.2	2610.4	2536.7	10.6
Consumer instal. credit	bil.$	399.8	400.9	405.9	413.7	420.6	420.6	5.2
Commerc. & indus. loans at banks	bil.$	417.6	419.2	421.6	423.8	425.9	425.9	2.0
Large denomination time dep.	bil $	315.6	322.8	329.6	332.4	338.7	330.9	4.8
Mortgages at S & L Assns.	bil.$	506.1	508.2	511.3	513.8	520.6	520.6	2.9

*Historical data (1) % change over previous year

and expected developments in the price level, unit labor costs, and overall economic growth.

KEDI shares the view with some others of the need to moderate economic growth so it is maintained and a boom-bust cycle is avoided.

This Institute does not share the view that there is no reason for the Fed to tighten credit which was recently expressed by Donald E. Maude of the interest-rate committee at Merrill Lynch Economics Inc. Some moderate adjustment is forecast here. Any tightening will not be on a scale that would cause the recovery to collapse. Any upward move in interest rates will be slight It has been forecast here for some time that there would be only mild moves by the Fed while the general policy remains one of restraint.

The forecast of monetary and credit aggregates remain essentially unchanged. Growth of M1 is seen as within the 5-7 percent range. That will continue throughout 1984. Look for M2 and M3 to grow between 8 and 9 percent. Strong increases in consumer installment credit are anticipated.

1.80 INTEREST RATES, YIELDS, SECURITIES PRICES

(Table 1.80 on page 25)

KEDI does not change its position that interest rates will not be declining to any significant degree. Any small downward moves will be of a temporary nature.

There are no realistic reasons to justify declines. Wishing will not make it come true.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	10.20	8.11	8.40	9.32	9.50	8.83	-13.4
Prime rate	%	14.86	10.82	10.50	10.80	11.00	10.78	-27.5
Conventional mortgages rate	%	15.57	13.26	13.16	13.19	13.15	13.19	-15.3
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.49	12.54	12.07	-12.4
20 years Govt. bonds yield	%	12.70	10.87	10.81	11.62	11.84	11.29	-11.1
Standard & Poor's 500 avg.	1941-43=100	119.75	147.94	162.73	163.14	159.21	158.25	32.2

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	8.83	9.41	9.35	9.18	8.96	9.23	4.5
Prime rate	%	10.78	10.83	10.64	10.24	10.18	10.47	-2.9
Conventional mortgages rate	%	13.19	13.04	12.87	12.71	12.52	12.79	-3.1
Aaa corporate bonds rate	%	12.07	12.52	12.44	12.31	12.27	12.39	2.6
20 years Govt. bonds yield	%	11.29	11.78	11.52	11.79	11.93	11.76	4.1
Standard & Poor's 500 avg.	1941-43=100	158.25	157.32	153.16	160.48	165.26	159.06	.5

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	9.23	9.05	9.10	9.24	9.35	9.14	-.5
Prime rate	%	10.47	10.04	10.31	10.46	10.62	10.36	-1.1
Conventional mortgages rate	%	12.79	12.31	12.68	12.82	13.04	12.71	-.7
Aaa corporate bonds rate	%	12.39	12.48	12.60	12.78	12.85	12.68	2.3
20 years Govt. bonds yield	%	11.76	12.01	12.38	12.57	12.72	12.42	5.6
Standard & Poor's 500 avg.	1941-43=100	159.06	162.41	157.26	151.31	146.53	154.38	-2.9

*Historical data (1) % change over previous year

INTEREST RATES, YIELDS, SECRUITIES PRICES

The consumer and the economy have become accustomed to high interest rates. That does not mean one has to like them, but living with them has become ordinary. Tweny years ago, a mortgage rate of around 6 percent seemed high. That is harldy the case now.

Look at retail sales and consumer installment credit. These areas confirm that high interest rates are tolerated rather well. Some Jane or Joe Shopper charge the new stereo or holiday gift (maybe even a "Cabbage Patch" doll if the supply is not exhausted) and accept an interest rate of 18 to 20 percent or more.

Expect rates to remain stable at high levels in 1984. They are seen as edging ahead just a bit in 1985. That year, the projection here shows the Federal Reserve will have to take a more restrictive policy to counter inflationary pressures. Such pressures are seen as emerging in late 1984.

The forecast of the stock market remains the same: A good performance is anticipated for 1984 for stocks in general with the corporate and federal bond market being stable. Some problems are seen for municipal bonds.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, three-month Treasury bill rates have been selected for comparison (average for the year 1982). The actual figures are in the Federal Reserve Bulletin, October 1983, p. A28, Table 1.35, (Board of Governors of the Federal Reserve System, Washington, D. C., monthly.) Forecast data are in Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982.) Caution should be exercised in interpreting forecast data. The forecasters may have used differing definitions.

The following table shows the predicitons of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Three-month Treasury bill rate, 1982)
Percentages

Actual Figure: 10.7

Forecaster (and pg. in source)	Date of Forecast	Forecast	% of Accuracy
Ameritrust Company pg 14	11/81	10.8	+0.9
Peter L. Bernstein, Inc. pg 16	11/1/81	7.6	-29.0
Harris Trust and Savings Bank pg 17	11/11/81	10.3	+3.9
Chemical Bank pg 18	11/19/81	11.5	+7.5
American Statistical Assoc. and NBER pg 19	12/81	11.5	+7.5
Fidelity Bank pg 26	12/81	12.1	+13.1
Cities Service Company pg 27	12/13/81	10.6	- .9
KEDI pg 28	1/1/82	11.6	+9.4

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product	SCB, Table 1.2
	Personal consumpt. expend.	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Government purchases of goods and services:	
	Federal	SCB, Table 1.2
	State and local	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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JANUARY 1984 ISSUE

President: Dr. Vladimir J. Simunek

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This forecast uses the December, 1983, U.S. Department of Commerce third estimates of 1983:3 National Income and Product data. Also used is the December 1983, Board of Governors of the Federal Reserve System releas of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Growth will continue over the next few years. Forecasts by econometric firms for 1984 range in a sample from 3.6 to 6.6 percent with KEDI being near the middle projecting a 4.9 percent expansion. Foreign trade is a major negative area. In 1985 growth is seen as slowing some to a 3.0 percent pace over the current year. REAL GROWTH The outlook is generally good with more balanced activity in 1984 than in 1983. Industries that were recovering in 1983 will continue to do so in 1984. Late 1983 developments in new orders, gains in building contracts, and healthy retail sales add credence to the forecast and point to more growth. PRICES There is a range of forecast for inflation from under 4 percent to above six percent. KEDI sees inflation as measured by the CPI as being 4.5 percent in 1984 and 4.7 percent in 1985. Durables prices will go up the most. The Producer Price Index for Finished Goods will go up 4.6 percent this year and move ahead by 5.6 percent in 1985. EMPLOYMENT AND LABOR There is no wide range of variations in projections of the jobless rate. KEDI expects it to decline quite slowly and reach the 7.2 percent level by the end of 1984. HOUSING The forecast remains the same with total starts just edging ahead in 1984. High prices and high mortgage rates continue to frustrate would-be buyers. AUTOS The forecast is increased and car sales are seen at the 9.8 million level for 1984. Production targets for the first quarter will likely be reduced in subsequent quarters. DEFICITS Federal deficit will remain high but move down some due to economic recovery. Federal deficits for 1984 and the following years are not going to cripple recovery nor drive interest rates beyond limits. State and local surpluses are of aid here. INCOME Corporate profits will bound ahead by over 22 percent. Personal income: Expect it to be 9.0 percent more in 1984 as compared to 1983. MONEY AND CREDIT Fed policy won't change much. It needs to be based more on broader factors such as output, employment, and productivity. Consumer credit will be higher by 7 percent in 1984 than in 1983. INTEREST RATES, YIELDS, AND SECURITIES PRICES Do not expect much change here. Private businesses can find adequate financing despite Washington red-ink totals. Cash flow is and will be substantial. Traditional after-election declines in the stock market will be small, if any.

1.02 OVERVIEW

1.021 COMPARISONS WITH OTHER FORECASTERS Other forecasters will be compared here. They differ in four main areas: How fast inflation will expand, the rate of growth, how much joblessness will go down, and, recently, how high interest rates will go up.

Ranges of the forecasts of other econometric services by major topics is followed here by a general look at KEDI's current forecast.

REAL GROWTH As measured by change between the fourth quarter of the last year and of 1984, growth is seen in most optimistic terms by Wharton Econometric Forecasting: 6.6 percent. Tied for second in cheeriness are FairModel and the U. of Michigan: 5.6 percent. Growth outlooks on the other side come from Evans Economics, 3.6 percent; Gary Shilling, 3.8; Citicorp, 3.9; and Chase Econometrics at 4.0. The average here works out to 4.6 percent. (KEDI currently calculates it at 4.0 percent.)

INFLATION If one considers a forecast of inflation of under 5 percent as optimistic, then A. Gary Shilling qualifies with 3.7 percent, as does the U. of California with 3.9, and the U. of Michigan with 4.7 percent (last quarter of '84 measured by GNP Price Deflator.) Highest rates of price increases are on the horizon according to Citicorp, 6.2 percent, and Merrill Llynch, 5.6. KEDI calculates a 4.5 percent inflation rate.

EMPLOYMENT As to comparisons of the unemployment rate between the last quarter of the last year and this year, even the most optimistic represent an adjustment to new so-called "low" levels of joblessness. Citicorp and Townsend-Greenspan both looked to a rate of 7.7 percent. UCLA, Data Resources, FairModel, and KEDI have figures of 7.8 percent. That is not a lot different from the more pessimistic figure of 8.1 percent used by Chase Econometrics and Fair Model or the 8.0 rate of Evans Economics and Gary Shilling. The average here was 7.9. (*Business Week*, Dec. 26, 1983, page 55.)

INTEREST RATES As measured by the yield of Three-month Treasury Bills at the end of 1984, those looking to the lowest rates were T. Howard of Federal National Mortgage Association, 8.25 percent;Allan Greenspan, 8.45; Paul Boltz, 8.25. Seeing rates at the higher end were Goldman Sachs,10.00; Lacy Hunt, 9.80; Equitable Life, 9.50; and Bank of America with 9.00. KEDI's forecast is 9.43 percent.

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KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 72 $	1485.4	1535.8	1696.2	1765.7
Index of industrial production	1967 =100	138.6	147.8	175.4	188.0
Capacity utilization	%	71.1	75.3	80.8	81.3
Unemployment rate	%	9.72	9.58	7.09	6.95
Private housing starts	mil.	1.062	1.690	1.601	1.747
Car sales	mil.	8.0	9.0	9.5	9.9
Implicit GNP price deflator	1972 =100	206.9	215.7	147.0	259.8
Consumer price index	1967 =100	288.6	297.9	342.4	262.6
Producer price index (Finished goods)	1967 =100	280.7	284.9	335.8	356.3
Federal deficit	bil.$	-147.1	-179.0	-126.1	-91.8
Personal income	bil.$	2587.6	2742.5	3445.4	3741.7
Prime rate	%	14.86	10.78	10.02	10.48
Mortgage rate	%	15.57	13.21	12.05	12.37
Currency plus demand deposits	bil.$	473.5	507.9	601.0	641.3
Commercial and industrial loans	bil.$	392.2	402.9	435.4	452.8

OVERVIEW

1.022 KEDI'S OUTLOOK

There will be growth in the economy during the next two years, but the pace will slow from the level of the current year. Inflation will remain moderate. The unemployment rate will decline gradually. Anticipate interest rates staying on the high side. There are not going to fall. Any downward moves will be slight and short-lived.

As concerns real growth, KEDI is slightly below the average. Expansion will be 4.9 percent for 1984 over 1983. The economy will be more solid and will show more balanced development this year than in 1983.

Three main forces will drive the economy in 1984: consumer demand, business equipment purchases, and government defense purchases. Evaluation of forecast data shows these factors will be decisive in the shaping of the performance of the economy.

Compared with 1983, consumer demand will be oriented more to durable goods. Purchases of durable goods will increase by 5.5 percent--mainly automobiles. Housing durables will gain marginally.

The second driving force of business capital spending on equipment will gain significantly. Last year's and this year's surge in profits provides enough funds for businesses to invest in new equipment: automatization and computerization. Business outlays on plants will gain slightly. That is, don't expect any significant increases in new plants, shopping centers and other private large construction projects.

In the area of federal spending, a major boost will be provided by defense orders. The growth of the defense industry this year over last year is forecast at 14.3 percent. There also will be a significant increase on highways maintenance and repair projects when compared to the previous year.

Although the rate of growth will slow, anticipate 1985 as being another good year. Growth will be close to 3.0 percent in 1985 as compared to 4.9 percent for 1984. There is no way that 1985 could be a recession year. A slight cyclical slowdown is more descriptive.

So, what is the major negative area of 1984? It is foreign trade. The projection shows that net exports will not improve. Imports are seen as increasing faster than exports in 1984 and some tendency toward a more balanced foreign trade will start appearing not earlier then in 1985.

OVERVIEW

KEDI anticipates the foreign trade deficit as measured by National Accounts to amount to $30 billion in 1984 and will decline to approximately $20 billion in 1985. The major reasons are well known. 1. The international position of the dollar will continue to be strong in both years which means cheap imports (and bonuses for world travelers from the U.S.A.) 2. The rest of the world, especially Third World countries will not recuperate from the recession at a fast pace. Still, gains by these countries will be a bit better in 1985 than this year, and demand for imports from this country will pick up some more.

There is a bright spot in the foreign trade scene: The forecast of the inflow of funds into this country due to the balance of trade deficit shows that roughly $20 billion will represent an investment into government debt. Consequently, federal deficits will continue to have significant financing by foreign countries.

Employment. The outlook is relatively optimistic. Still, declines in unemployment will be gradual. We won't see a repeat of the 0.4 percent decline in the unemployment rate in just one month (November 1983.) First, automatization means labor savings. Less workers are needed. Secondly, some industries, such as steel, farm machinery, and mining will show some recuperation but not achieve the prerecesion levels of output. Hence, the prerecession number of workers won't be needed.

Federal deficits. The projection of federal deficits remains bleak. For calendar 1984, look to a total of $170 billion. It will be slightly lower in 1985: $160 billion. However, these deficits are not considered as tragic as some economists would have you believe for the reasons cited here. 1. State and local governments will continue showing increasing surpluses. The figure projected here for 1984 is $63 billion. In 1985, a surplus of $66 billion is forecast. Significant portions of these surpluses will be invested into Federal and Federal Agencies securities. KEDI forecasts show a $15 billion investment in Federal debt, and approximately $20 billion in Federal Agencies issues by state and local governments in 1984. 2. This year, approximately $20 billion of Federal debt will be financed from overseas and not by domestic markets.

Considering personal saving as measured by the Fed (that is roughly $100 billion more than the Department of Commerce figure), high levels corporate cash flow in 1984 and in 1985, there is not seen any dramatic clash between the federal and private business borrowing needs, neither this year nor in 1985.

Interest rates KEDI maintains its prediction of stable interest rates at current rather high levels for 1984 and slight gains in 1985. It is assumed that the Fed's policy will be generally restrictive throughout that period. KEDI anticipates the Fed will shift gears some in the latter part of this year to restrict interest rates from significant increases and keep their level stable. There will not be any outcrowding. Federal deficits will not cause interest rates to rise. The upward pressure on interest rates will originate from business demands. In 1983, businesses financed their needs in part, from the stock market and kept loans on a low level. The projection of inventory gains and equipment purchases shows that the financing pattern will change this year and in 1985. There will be more commercial and industrial loans. Still, that increase will be not enough to cause any major rise in interest rates.

Inflation. As was mentioned, KEDI is less optimistic than many forecasters. Expect inflation, as measured by the CPI, to be 4.5 percent higher this year. Main increases will be in food (because of agriculture prices), services (medical costs, repair costs, hotels and restaurants), and transportation.

Profits. KEDI shares the rosey outlook for 1984. After-tax profits are expected to be 22 percent higher this year than last. The next year, 1985 will show a gain over the current year, but it will be at just about 10.0 percent--improved, but leveling.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumption No. 1 has been updated.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Gross national product	bil. 72 $	1485.4	1490.1	1525.1	1553.6	1574.7	1535.8	3.4
Index of industrial production	1967=100	138.6	138.5	144.5	151.7	156.5	147.8	6.6
Unemployment rate	%	9.7	10.3	10.1	9.4	8.5	9.6	-1.0
Capacity utilization rate	%	71.1	70.7	73.8	77.2	79.4	75.3	5.9
Private housing starts	mil.	1.062	1.694	1.683	1.788	1.598	1.690	59.1
Car sales	mil.	8.0	8.4	8.8	9.3	9.3	9.0	12.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil. 72 $	1535.8	1588.2	1604.8	1620.5	1632.9	1611.6	4.9
Index of industrial production	1967=100	147.8	159.8	162.9	167.3	169.8	164.9	11.9
Unemployment rate	%	9.6	8.0	7.7	7.5	7.2	7.6	-20.5
Capacity utilization rate	%	75.3	80.3	81.4	82.3	83.3	81.8	8.6
Private housing starts	mil.	1.690	1.514	1.870	1.969	1.681	1.757	4.0
Car sales	mil.	9.0	9.6	9.8	9.9	9.7	9.8	8.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil. 72 $	1611.6	1644.0	1655.8	1664.5	1674.4	1659.8	3.0
Index of industrial production	1967=100	164.9	170.1	170.9	171.9	167.0	170.1	3.2
Unemployment rate	%	7.6	7.0	6.9	7.0	7.0	7.0	-8.3
Capacity utilization rate	%	81.8	83.6	84.0	84.5	84.6	84.2	2.9
Private housing starts	mil.	1.757	1.510	1.721	1.899	1.528	1.686	4.0
Car sales	mil.	9.8	9.8	9.9	9.7	9.7	9.8	.8

*Historical data (1) % change over previous year

this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1985 or 1986.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In 1984, stabilizing is expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

6. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.

7. No drastic changes in international relationships are anticipated.

The January 1984 KEDI forecast is highlighted on page 3.

1.10 REAL GROWTH

(Tables 1.11, 1.12, and 1.13 on pages 7, 9, and 11)

The industry outlook is seen from the table on page 10. In general, the 1984 outlook is bright. Growth will be more balanced than in 1983. Balanced growth means that it will spread to more sectors. Rates of growth will be rather widely disparate. For instance, many industries that sank deep during the recession will have the highest rates of growth: chemicals, especially fertilizers, machine tools and parts, some nonmetal mining, railroad equipment, truck and bus bodies, and trailers.

Look for the industries that performed well during 1983 to continue to do so in 1984: automobiles, housing, computer software, electronic computing equipment, medical and biomedical products, paper and paperboard, semiconductors, road construction and repair machinery, ordnance and accessories, defense and aerospace products, lumber, and stone and clay products.

Industries with problems that will continue are as follows: leather and leather products, construction machinery (except road building and repair machinery), farm machinery, nonferrous metals (like copper), coal mining

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1*	2*	3	4		
Gross national product	bil. 72 $	1485.4	1490.1	1525.1	1553.4	1574.7	1535.8	3.4
Personal cons. expenditures	bil. 72 $	970.2	986.7	1010.6	1016.0	1028.8	1010.5	4.2
Gross private dom.investment	bil. 72 $	194.5	190.0	210.0	230.7	240.0	217.6	11.9
Net exports	bil. 72 $	28.9	20.5	12.3	11.4	7.9	13.0	-54.9
Federal govt. purchases	bil. 72 $	116.6	118.4	117.6	118.9	120.1	118.8	1.8
State and local purchases	bil. 72 $	175.2	174.5	175.4	176.3	177.9	176.0	.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil. 72 $	1535.8	1588.2	1604.7	1620.5	1632.9	1611.6	4.9
Personal cons. expenditures	bil. 72 $	1010.5	1037.2	1047.7	1056.2	1063.9	1051.2	4.0
Gross private dom.investment	bil. 72 $	217.6	244.8	249.6	255.2	258.4	252.0	15.8
Net exports	bil. 72 $	13.0	5.1	4.7	3.4	3.5	4.2	-67.9
Federal govt. purchases	bil. 72	118.8	121.5	122.4	123.1	124.0	122.8	3.3
State and local purchases	bil. 72 $	176.0	179.6	180.3	182.6	183.1	181.4	3.0

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil. 72 $	1611.6	1644.0	1655.8	1664.5	1674.4	1659.8	3.0
Personal cons. expenditures	bil. 72 $	1051.0	1068.4	1075.1	1082.4	1089.3	1078.8	2.6
Gross private dom.investment	bil. 72 $	252.0	258.5	262.8	261.1	260.3	260.8	3.5
Net exports	bil. 72 $	4.3	6.6	4.6	3.3	4.7	4.8	11.6
Federal govt. purchases	bil. 72 $	122.9	124.9	126.3	128.3	129.7	127.3	3.6
State and local purchases	bil. 72 $	181.4	185.6	187.1	188.9	190.2	188.0	3.6

*Historical data (1) % change over previous year

REAL GROWTH

East of the Mississippi, textile machinery, plastics, oil and gas exploration and fabricated metal products.

Industries that will show moderate growth are: rubber, petroleum products, clay, glass and stone products, electrical machinery (especially its appliances section), furniture and fixtures, and steel. (Although steel shipments of 76 million tons can be anticipated this year, up from the 1983 total of 68 million, that is still below the more normal total of 85-90 million tons.)

INDEX OF INDUSTRIAL PRODUCTION
FOR SELECTED INDUSTRIES
(1967=100)

	1981	1982	1983	1983:4	1984	1985
Total Index	151.0	138.6	147.8	156.5	164.9	170.1
Metal Mining	123.1	82.4	81.0	84.2	86.1	89.0
Coal Mining	141.3	142.7	137.0	144.9	148.7	153.2
Oil and Gas Extraction	146.8	131.1	116.3	119.3	125.2	134.8
Stone and Earth Minerals	129.4	112.1	122.5	131.0	134.6	139.7
Foods	152.1	151.1	157.2	160.5	164.2	166.9
Textile Mill Products	135.7	124.5	130.8	150.5	155.7	162.1
Paper and Products	155.0	150.8	164.8	173.7	176.2	180.3
Chemicals and Products	215.6	196.1	215.9	229.4	238.9	247.3
Petroleum Products	129.7	121.8	121.1	124.9	127.6	130.1
Rubber and Plastics	274.0	254.7	292.8	319.1	330.7	340.6
Leather and Products	69.3	60.9	61.5	62.8	63.4	63.2
Ordnance and Accessories	81.1	86.9	95.8	100.6	105.6	114.8
Lumber and Products	119.1	112.6	137.8	142.6	146.1	148.1
Furniture and Fixtures	157.2	151.9	171.5	182.7	186.5	187.4
Clay,Glass,and Stone Products	147.9	128.2	143.3	153.4	158.2	162.7
Iron and Steel	99.8	61.7	72.7	83.3	85.1	87.2
Fabricated Metal Products	136.4	114.8	120.5	129.4	134.3	138.4
Nonelectrical Machinery	171.2	149.0	150.3	160.6	164.7	169.2
Electrical Machinery	178.4	169.3	185.6	200.8	209.1	213.9
Motor Vehicles and Parts	122.3	109.8	137.5	152.5	157.3	162.4
Utilities (Electric)	190.9	190.5	196.4	204.2	207.2	211.5

Transportation. The fastest growing area here will be the trucking industry. Look to shipments being almost 10 percent higher this year than last year. (Does that connect in the reader's mind with the growth forecast for road construction and repair machinery?) Expect that 5.5 percent more ton-miles will be added as more goods ride the rails of the nation's railroads than in 1983 with the fastest growing section being the intermodal one. Airlines

TABLE 1.13 DETAILED REAL GNP

(Quarterly data are seasonally adjusted at annual rates. Bil. 1972 $)

Indicator	1983:4	1983	1984:1	1984:2	1984:3	1984:4	1984	% (1)
Gross national product	1574.7	1535.8	1588.2	1604.7	1620.5	1632.9	1611.6	4.9
Personal cons. expenditures	1028.8	1010.5	1037.2	1047.7	1056.2	1063.9	1051.2	4.0
Durables	159.2	154.9	160.7	162.2	164.5	166.4	163.5	5.5
Nondurables	383.7	376.4	387.3	390.7	394.6	396.7	392.2	4.2
Services	485.9	479.2	489.2	494.8	497.1	500.8	495.5	3.2
Gross private dom.investm.	240.0	217.6	244.8	249.6	255.2	258.4	252.0	15.8
Fixed investment	234.6	220.7	238.6	243.2	248.6	251.1	245.4	11.2
Nonresidential	176.7	167.5	182.0	183.9	188.8	193.5	187.1	11.7
Structures	50.4	49.7	51.2	51.7	54.3	55.2	53.1	6.8
Equipment	126.3	117.8	130.8	132.2	134.5	138.3	134.0	13.7
Residential	57.9	53.2	56.6	58.3	58.8	55.6	57.3	7.7
Invent.change	5.4	-2.9	6.2	7.4	7.6	9.3	7.6	--
Net exports	7.9	13.0	5.1	4.7	3.4	3.5	4.2	--
Exports	144.3	139.6	146.5	148.2	150.1	152.6	149.4	1.1
Imports	136.4	126.6	141.5	143.5	146.7	149.1	145.2	14.7
Government purchases	298.0	294.8	301.1	302.7	305.7	307.1	304.2	3.2
Federal	210.1	118.8	121.5	122.4	123.1	124.0	122.8	3.3
State and local	177.9	176.0	179.6	180.3	182.6	183.1	181.4	3.1

(1) % change, 1984 over 1983

are expected to carry 4.0 percent more passengers in 1984 than last year.

Mining. The leaders in nonferrous metals will be zinc and aluminum. As was mentioned, copper will remain low. That is mostly due to imports. Coal mining will reach the 1981 level. However, most gains are expected by mines West of the Mississippi--especially Wyoming. Traditional coal mining areas such as West Virginia, Kentucky, Ohio, and Maryland will continue to have problems.

Utilities. Expect electric power production to increase by approximately 4.8 percent. Natural gas production will remain essentially flat.

Recent Developments

The strength of the economy this year is confirmed by the good news cited below here.

1. Durable-goods orders were up 4 percent in November. Much of this surge came from defense jobs.
2. New orders increased by 2.2 percent in November. Again, much of the gain was from defense orders. Still, they produce income and jobs like any other order. The 4.9 percent drop in nondefense capital goods is not seen as a cause for concern here nor a start of a trend.
3. The building contracts area showed growth as the value of contracts for new construction rose by 4 percent in November from the prior month.
4. Retail sales did nicely indeed in November--thank you very much. Most major stores showed double-digit increases. This growth is not just a Christmas frenzy that will fizzle. Consumer buying strength will continue through 1984 and beyond.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 13)

KEDI maintains its forecast of moderation in price increases. However, the unprecedented low inflation of 1983 will not be repeated. The current forecast is presented.

Year-to-Year Change in the CPI in Percent	
1983 over '82	3.2
'84 over '83	4.5
'85 over '84	4.7

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Consumer price index,n.s.a.	1967= 100	288.6	292.5	296.1	299.5	303.4	297.9	3.2
Producer price index,n.s.a.**	1967= 100	280.7	283.8	284.1	285.7	286.0	284.9	1.5
Price deflators:								
GNP	1972= 100	206.9	212.8	214.5	216.4	218.8	215.7	4.3
Personal cons. expenditures	1972= 100	205.3	210.1	212.5	214.7	217.4	213.4	3.9
Gross private dom.investment	1972= 100	213.1	212.9	214.1	217.2	218.0	215.6	2.2
Federal purchases	1972= 100	221.9	230.0	232.7	233.9	235.9	233.1	5.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	297.9	305.7	310.0	312.7	316.6	311.3	4.5
Producer price index,n.s.a.**	1967= 100	284.9	290.3	294.9	300.1	306.0	298.0	4.6
Price deflators:								
GNP	1972= 100	215.7	220.6	223.0	225.6	227.8	224.3	4.0
Personal cons. expenditures	1972= 100	213.4	219.0	221.2	223.1	225.1	222.1	3.9
Gross private dom.investment	1972= 100	215.6	220.0	222.4	225.4	226.7	223.6	3.6
Federal purchases	1972= 100	233.1	237.7	239.4	241.1	243.9	240.5	3.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	311.3	319.2	322.8	327.7	333.7	325.9	4.7
Producer price index,n.s.a.**	1967 100	298.0	306.8	312.4	317.5	321.8	314.7	5.6
Price deflators:								
GNP	1972= 100	224.3	229.5	232.9	235.7	239.1	234.3	4.5
Personal cons. expenditures	1972= 100	222.1	227.1	[illegible]	232.0	234.3	230.8	3.9
Gross private dom.investment	1972= 100	223.6	228.0	231.1	234.3	240.0	233.3	4.2
Federal purchases	1972= 100	240.5	242.2	247.2	250.5	254.6	249.1	3.9

*Historical data (1) % change over previous year **Finished goods

PRICES

The areas with the fastest growing prices this year will be some services (especially medical) 9.3 percent, hotels, motels, and restaurants, 5.1; transportation, 5.1; and food, 4.2 percent. Prices of energy will stabilize for gasoline, natural gas, and heating oil. Small increases are projected for electricity.

KEDI considers that the survey by Standard & Poor's Corp. shows price gains as a bit higher than what will take place. For instance, they show food prices up about 5 percent.

The forecast by KEDI for the PPI (Finished Goods) is optimistic.

Year-to-Year Change in the PPI in Percent

1983 over '82	1.5
'84 over '83	4.6
'85 over '84	5.6

KEDI does not quite agree with Joel Popkin in his forecast of producer price inflation accelerating to a 5.5 percent pace by the end of 1984. Calculations here show it closer to a 5.0 percent rate at that time.

Two main factors will keep changes in the PPI low. 1. Oil prices will be leveling. They will stay around $29 per barrel. KEDI does not agree with Salomon Brothers that report OPEC countries internal battles will lead to inability to maintain the price of oil. OPEC ministers stated that they will maintain current output and the price of $29 per barrel. Another factor contributing to stability of oil prices is the move by Britain to hold North Sea oil prices steady. Also, the Soviet Union told of plans to cut the price of its crude oil blend only marginally.
2. The second factor in keeping the PPI gains moderate is in the commodities sector. Only moderate increases in prices are anticipated here and elsewhere. Global economic recovery will be slow and that will prevent such prices from taking off to higher figures. Also poorer nations in great need of export earnings will keep production levels up and that keeps prices from moving ahead.

Expect sharper gains in some metals and metal ore prices such as zinc, lead, and scarce metals such as titanium and molybden. For raw materials there will be increases in prices of natural rubber, jute, agriculture products of feedstock, raw sugar, soybeans, and corn.

TABLE 1.22 NOMINAL GNP

(Quartely data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Gross national product	bil.$	3073.0	3171.5	3272.0	3362.2	3446.9	3313.2	7.8
Personal cons. expenditures	bil.$	1991.9	2073.0	2147.0	2181.1	2236.6	2159.5	8.4
Gross private dom.investment	bil.$	414.5	404.1	450.1	501.1	523.2	469.6	13.2
Net exports	bil.$	17.4	17.0	-8.5	-18.3	-25.9	-8.9	--
Federal govt. purchases	bil.$	258.7	273.5	273.7	278.1	282.3	276.9	7.0
State and local purchases	bil.$	390.5	404.0	409.7	420.2	430.7	416.1	6.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3313.2	3503.1	3578.8	3655.9	3719.8	3614.4	9.0
Personal cons. expenditures	bil.$	2159.4	2269.2	2318.2	2356.5	2395.2	2334.8	8.1
Gross private dom.investment	bil.$	469.6	538.6	555.2	575.4	585.9	563.8	20.0
Net exports	bil.$	-8.9	-33.2	-33.4	-27.3	-22.5	-29.1	--
Federal govt. purchases	bil.$	276.9	288.8	293.0	296.8	302.4	295.3	5.6
State and local purchases	bil.$	416.1	439.7	445.5	454.5	458.8	449.6	8.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3614.4	3772.3	3857.1	3923.1	4004.0	3889.1	7.6
Personal cons. expenditures	bil.$	2334.8	2427.2	2472.4	2510.3	2552.7	2490.6	6.6
Gross private dom.investment	bil.$	563.8	589.4	607.5	613.0	624.6	608.6	8.0
Net exports	bil.$	-29.1	-21.1	-15.3	-9.5	-1.6	-11.8	--
Federal govt. purchases	bil.$	295.3	306.3	312.2	321.4	330.2	317.5	7.5
State and local purchases	bil.$	449.6	470.9	480.3	487.9	498.1	484.1	7.6

*Historical data (1) % change over previous year

PRICES

The view of moderate price increases is given validity by recent developments. 1. The CPI was up just 0.3 percent in November. Cheaper gasoline and less expensive groceries kept the inflation rate about the same as last year. The CPI was at 303.1 of its 1967 average. 2. Producer prices dropped 0.2 percent in November.

1.22 NOMINAL GNP

(Tables 1.22 and 1.23 on pages 15 and 17)

In 1984 Nominal GNP will increase by 9.0 percent and in 1985 it will go up by another 7.6 percent. The fastest growing component will be business capital formation--investment into equipment will go up by approximately 13 percent when compared with the year 1983. In 1985, business capital outlays will be slowing down somewhat. Still, they will post a gain of 8 per cent when compared to 1984. Projection of business inventories shows moderate increases throughout the 1984-1985 period. This year and most of 1985, increases are projected mostly for producer inventories. In the second half of 1985, the picture will start changing--more weight will be taken by growing inventories at retail levels due to a slowdown in consumer demand at that time. The excess of imports over exports will peak this year and will be gradually declining in the next year. The 1985 merchandise balance will remain in the red, however.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 19)

The employment outlook is fairly good. The KEDI forecast shows a drop in the jobless rate of almost 11 percent between the fourth quarter of 1983 and the fourth quarter of 1984 when it is calculated at 7.20 percent. When comparing the last part of this year to the final quarter of 1985, a further decline is seen as the jobless rate moves down to 7 percent.

The jobless rate will not be declining as fast in 1984 as it did in the last quarter of 1983. Two reasons exist: 1. Economic expansion will not be as fast in 1984 as it was in most of 1983 and, hence, it will absorb less new labor. 2. Hiring of new labor will also slow because of automatization and computerization.

The largest demand for labor in 1984 will be in the following sectors:

TABLE 1.23 DETAILED NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates. Bil. $)

Indicator	1983:4	1983	1984:1	1984:2	1984:3	1984:4	1984	% (1)
Gross national product	3446.9	3313.2	3503.1	3578.8	3655.9	3719.8	3614.4	9.0
Personal cons. expenditures	2236.6	2159.5	2269.2	2318.2	2356.5	2395.2	2334.8	8.1
Durables	287.8	276.8	293.4	298.0	303.5	309.1	301.0	8.7
Nondurables	831.5	805.8	845.9	866.0	882.1	894.4	872.1	8.2
Services	1109.3	1075.0	1129.9	1154.2	1170.9	1191.7	1161.7	8.0
Gross private dom.investm.	523.2	469.6	538.6	555.2	575.4	585.9	563.8	20.0
Fixed investment	510.4	477.8	521.8	535.9	555.2	561.5	543.6	13.8
Nonresidential	364.7	346.0	377.9	384.8	399.5	411.3	393.4	13.6
Structures	133.5	131.2	135.8	137.6	144.9	147.3	141.4	7.7
Equipment	231.2	214.9	242.1	247.2	254.6	264.0	252.0	17.2
Residential	145.7	131.7	143.9	151.1	155.7	150.2	150.2	13.8
Invent.change	12.8	-8.2	16.8	19.3	20.2	24.4	20.2	--
Net exports	-25.9	-8.9	-33.2	-33.4	-27.3	-22.5	-29.1	-12.4
Exports	353.4	337.1	361.6	368.6	377.2	387.1	373.6	10.8
Imports	379.3	346.0	394.8	402.0	404.5	409.6	402.7	16.3
Government purchases	713.0	693.0	728.5	738.5	751.3	761.2	744.9	7.4
Federal	282.3	276.9	288.8	293.0	296.8	302.4	295.3	5.6
State and local	430.7	416.1	439.7	445.5	454.5	458.8	449.6	7.9

(1) % change, 1984 over 1983

EMPLOYMENT AND LABOR

service industries (mainly hotels, motels, restaurants, especially fast foods), computer software, electronics, biomedicals, biochemistry, high technology, defense industries, ordnance, and aerospace.

Close to full employment levels are anticipated in retail and wholesale trade, rubber, paper, forest products, textile, chemicals, electrical machinery, food, clay, stone and glass, highways maintenance, railroads, trucking, and financial services.

Joblessness will persist in mining, especially coal, iron ore, and copper; nonelectrical machinery (especially farm and construction machinery for exports); textile machinery, nonresidential.construction; steel; airlines; and utilities.

Further improvement in average weekly hours in manufacturing is expected as can be seen here:

1983	40.2
1984	41.2
1985	42.3

Strike activity. KEDI anticipates generally increased strike and work-stoppages activity in 1984. When measured by the hours lost, 1984 will have 30 percent more such lost hours. In 1983, there was a 50 percent increase over the prior year in this item.However,KEDI does not expect 1984 to be "a year of reckoning." The main impact is expected from a strike in the Fall by auto workers. Auto workers gave up pay increases in the 1982 wage freeze. The UAW will likely seek the return to the 3 percent annual pay increase and pressure for retroactivity. KEDI does not look to any major impact from strikes in rail, construction, retail food, and coal industries, nor does it expect strikes in all these sectors. For instance, a jobless rate of 15 percent in the construction industry is not condusive to a strike

1.41 HOUSING

(Table 1.41 on page 21)

KEDI maintains the prediction of 1.7 million units as the total number of starts. There will be a slight slowing in 1985 to a pace of 1.6 million.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1*	2*	3	4		
Population	mil.	229.6	231.5	232.2	232.9	235.1	232.9	1.4
Civilian labor force	mil.	110.2	110.5	111.1	112.4	113.7	112.0	1.6
Employment	mil.	99.5	99.1	100.0	101.8	104.1	101.2	1.7
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	96.1	95.7	96.6	98.4	100.7	97.9	1.8
Unemployment rate	%	9.72	10.34	10.10	9.43	8.45	9.58	-1.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.8
Civilian labor force	mil.	112.0	114.2	115.0	116.2	117.1	115.6	3.2
Employment	mil.	101.2	105.0	106.1	107.5	108.7	106.8	5.5
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	97.9	101.6	102.7	104.1	105.3	103.4	5.6
Unemployment rate	%	9.58	8.02	7.71	7.53	7.20	7.62	-20.5

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	115.6	118.1	119.4	121.0	122.6	120.2	3.9
Employment	mil.	106.8	109.8	111.1	112.6	114.0	111.8	4.6
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	103.4	106.4	107.7	109.2	110.6	108.4	4.8
Unemployment rate	%	7.62	7.04	6.91	6.95	7.04	6.99	-8.3

*Historical data (1) % change over previous year

HOUSING

Why won't housing recover at a better rate in 1984? For one thing, the prices of new homes will be going up faster than they did in 1983. The average price of a new house at the end of 1983 was $94,000. By the end of 1984, that price is seen as moving over the $100,000 mark--to $102,000.00 to be more specific. Most Americans have an average family income that cannot afford that price.

Secondly, mortgage rates will remain high. They were in the mid 12 percent range at the end of 1983. KEDI agrees with those that do not see the rate moving much more than one-half a percent if there is any downward move. Any upward moves will be curtailed by Federal Reserve policy so that, on balance, rates will remain close to current levels throughout the year.

The 1984 increase in housing starts will be evenly spread between single-family and multifamily housing starts.

During 1985, the small decline will be mainly in single-family starts.

Strength will be best in the North Central states and in the West. Price hikes will be more substantial in housing prices in the North Central area. This is mainly due to the low rates of gain--relatively speaking-- in house prices there in recent years.

From a consumer point of view, the few areas where house prices are stable, or even declining ever-so slightly, can be viewed favorably. Examples are Houston, Texas and Detroit, Michigan. This will not spread nor be the start of a trend.

1.42 AUTOMOBILES

(Table 1.42 on page 23)

This Institute has increased its forecast for car and truck production and sales for 1984 and 1985. The reason for the change in the forecast is the upward revision of consumer sales of durable goods over the next two years. A major share of the increase comes from the auto and truck sectors.

It seems that car makers are looking at 1984 with more emphasis on the bright side. They plan to build nearly 2.2 million cars in this first quarter: 600,000 in January and 800,000 in February and March each. If that pace were carried on through the following months, it would correspond to 8-9 million cars being built in 1984. Adding a minimum of 2.2 million imported autos, that would mean sales of 10-11 million. KEDI considers that amount

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1*	2*	3	4		(1)
Single-family housing starts	mil.	.663	1.079	1.104	1.061	.915	1.039	56.7
Multifamily housing starts	mil.	.399	.615	.579	.727	.683	.651	63.1
Mobile home shipments	mil.	.239	.299	.301	.289	.276	.291	21.7
Permits authorized	mil.	1.000	1.464	1.639	1.647	1.614	1.591	59.1
1-family unit price, new**	tho.$	83.8	86.7	88.9	90.5	94.1	90.0	7.4
1-family unit price,exist.**	tho.$	80.4	80.5	82.6	84.1	88.5	83.9	4.3

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.039	.902	1.196	1.248	.993	1.084	4.3
Multifamily housing starts	mil.	.651	.612	.674	.721	.688	.673	3.3
Mobile home shipments	mil.	.291	.274	.298	.306	.275	.288	-.9
Permits authorized	mil.	1.591	1.486	1.689	1.736	1.664	1.643	3.2
1-family unit price, new**	tho.$	90.0	96.2	98.3	100.5	103.8	99.7	10.7
1-family unit price,exist.**	tho.$	83.9	89.7	92.1	93.4	95.6	92.7	10.4

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.084	.890	1.154	1.196	.903	1.035	-9.6
Multifamily housing starts	mil.	.673	.620	.667	.693	.625	.651	-3.3
Mobile home shipments	mil.	.288	.265	.278	.283	.264	.272	-5.6
Permits authorized	mil.	1.643	1.423	1.569	1.607	1.483	1.520	-7.5
1-family unit price, new**	tho.$	99.7	105.7	107.8	109.4	110.1	108.2	8.5
1-family unit price,exist.**	tho.$	92.7	96.6	97.2	99.0	100.3	98.2	5.9

*Historical data (1) % change over previous year **Not seas. adjusted

as being too high. Three main factors will influence the production and sales of autos this year:

- The high price of cars
- the level of demand
- the strike expected in the fall.

It is anticipated here that automakers will revise their production plans in a downward direction during this year. Secondly, some sort of incentive programs will begin during the first quarter. Thirdly, a strike seems highly likely. A strike of just one month may reduce production by up to one-half million cars.

KEDI's prediction for truck production and sales is optimistic. Production will continue gaining from the high levels of the last quarter of 1983. Expect high levels throughout this year, and look to a flattening in the following year. (See Table 1.42 on page 23.)

1.50 BUDGETS

(Table 1.50 on page 25)

FEDERAL BUDGET It is not easy to develop exact figures for the fiscal 1985 federal budget (which starts Oct. 1 of this year) because:

- The final data of presidential proposals are not yet completed at the time of this report.
- It depends largely on Congress during the coming months as to how the budget will be ultimately shaped.

Still, some informed figures can be run up the flag pole, so-to-speak. At this time, KEDI anticipates the proposed budget for fiscal 1985 will be approximately $930 billion--or $10 billion more than the Administration considered in its July, 1983, budget review. It is also roughly $80 billion higher than the fiscal 1984 total.

The deficit the Administration is projecting is not yet completed at the time of this report--KEDI expects approximately $192 billion. That is around $22 billion more than had been forecast by them back in July of 1983.

This Institute anticipates that the State of the Union, January, 1984, message by the President will contain a spending cut and tax increase proposal for fiscal 1985. The estimate at KEDI is that the final package proposed would reduce the deficit by roughly $50 billion each year during

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Passenger cars:								
Total sales	mil.	8.0	8.4	8.8	9.3	9.3	9.0	12.5
Domestic	mil.	5.8	6.0	6.6	6.9	7.0	6.6	13.8
Imported	mil.	2.2	2.4	2.2	2.3	2.3	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.2	1.5	1.7	1.4	-26.4
Factory shipments	mil.	5.0	6.0	6.7	7.3	7.1	6.7	34.0
Light-duty truck sales	mil.	2.1	2.1	2.5	2.6	2.7	2.5	19.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.0	9.6	9.8	9.9	9.7	9.8	8.9
Domestic	mil.	6.6	7.2	7.4	7.5	7.1	7.3	10.6
Imported	mil.	2.3	2.4	2.4	2.4	2.6	2.5	8.7
Dealers inventories**	mil.	1.4	1.6	1.5	1.7	1.2	1.5	7.1
Factory shipments	mil.	6.7	7.4	7.6	7.7	7.0	7.4	10.5
Light-duty truck sales	mil.	2.5	2.7	2.8	3.0	2.5	2.8	12.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.8	9.8	9.9	9.7	9.7	9.8	.3
Domestic	mil.	7.3	7.3	7.5	7.3	7.3	7.4	1.3
Imported	mil.	2.5	2.5	2.4	2.4	2.4	2.4	-3.0
Dealers inventories**	mil.	1.5	1.6	1.7	1.7	1.8	1.7	13.3
Factory shipments	mil.	7.4	7.5	7.4	7.2	7.1	7.4	1.1
Light-duty truck sales	mil.	2.8	2.8	2.8	3.0	2.8	2.9	3.6

*Historical data (1) % change over previous year **Seas. not adjusted

the 1985-89 period. HOWEVER, the passage of such proposals is considered as being fairly unlikely by KEDI. KEDI supports the President in the recent announcement that there would be no new taxes in 1984. As has been said here before, the time for increases is when recovery is solidly under way--1985.

STATE AND LOCAL BUDGETS The forecast is optimistic for 1984 and the following years. On a calendar basis, KEDI projects that state and local governments will continue to have surpluses that will be growing an average $5-6 billion a year in total, as is listed here:

State and Local Surpluses
($ billions)

1984	63
1985	66
1986	71
1987	77
1988	84

It is obvious that state and local finances are far more healthy than federal finances. A few states, such as Oklahoma, are in temporary difficulty due to overestimating anticipated revenues. It is likely they will get back into balance and into surplus as Ohio did--through higher state taxes with voter approval. (Few citizens want to see services--roads, schools, etc.--cut back.)

This Institute forecasts the surpluses will be distributed through pension funds in financial markets in approximately the following pattern:

Federal Agencies issues	$14 billion
Equities and bonds	$11 billion
Federal debt	$25 billion
Others	$10 billion
Total	$60 billion

Again, these figures show the federal deficit is less of a burden than many suppose.

1.60 INCOME

(Table 1.60 on page 27)

KEDI's forecast of corporate after tax profits for this year and next year remains essentially the same.

Corporate After Tax Profits, in %
(Changes over Prior Year)

1983	14.3
1984	22.5
1985	10.5

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Federal Government:								
Income taxes	bil.$	304.7	297.7	304.2	286.9	306.1	298.7	-2.0
Corpor.profits tax accruals	bil.$	45.6	48.6	59.8	66.8	72.5	61.9	33.1
Surplus/deficit	bil.$	-147.1	-183.3	-166.1	-188.5	-178.2	-179.0	-21.6
State and local Governments:								
Income taxes	bil.$	97.4	104.1	108.4	113.3	116.0	110.4	13.3
Corpor.profits tax accruals	bil.$	12.7	12.9	16.2	18.4	19.3	16.7	21.4
Surplus/deficit	bil.$	31.3	40.4	41.0	55.5	56.6	48.3	59.3

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Federal Government:								
Income taxes	bil.$	298.7	315.0	327.8	336.4	343.0	330.5	14.0
Corpor.profits tax accruals	bil.$	61.9	75.3	78.6	80.6	83.0	79.3	28.1
Surplus/deficit	bil.$	-179.0	-175.8	-171.3	-165.2	-160.7	-166.2	-6.1
State and local Governments:								
Income taxes	bil.$	110.4	119.7	122.0	125.1	129.0	123.9	12.2
Corpor.profits tax accruals	bil.$	16.7	20.2	22.8	24.9	26.3	23.5	40.7
Surplus/deficit	bil.$	48.3	59.8	61.9	64.7	67.1	63.3	31.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal Government:								
Income taxes	bil.$	330.5	351.2	358.4	364.1	372.9	361.6	9.4
Corpor.profits tax accruals	bil.$	79.3	84.0	85.9	87.6	90.8	87.0	9.7
Surplus/deficit	bil.$	-166.2	-158.4	-155.2	-148.6	-139.4	-150.4	-1.6
State and local Governments:								
Income taxes	bil.$	123.9	132.4	133.1	135.2	138.8	134.8	8.7
Corpor.profits tax accruals	bil.$	23.5	28.7	29.5	30.4	32.1	30.1	28.0
Surplus/deficit	bil.$	63.3	69.7	72.1	73.5	75.4	72.6	14.6

*Historical data (1) % change over previous year

INCOME

The forecast is in the range of most economists. For example, Data Data Resources looks to profits being up 22 percent in 1984, Allan Greenspan is predicting 25 percent, and Wharton Econometrics anticipates a gain of 26 percent. The view of Lacy H. Hunt of Carroll, McEntee & McGinley that profits might go up 42 percent this year is certainly not shared here.

Projections of after tax profits by industries for 1984 in terms of percentage increase over 1983 follows:

Mining:	
Coal	6
Nonferrous metals	3
Construction	10
Manufacturing:	
Food	9
Rubber and Plastics	16
Oil Extraction	12
Chemicals	21
Lumber & Wood	28
Textile	26
Paper & Products	31
Leather	2
Manufacturing (con't)	
Furniture & Fixtures	12
Iron and Steel*	
Nonelectrical Machinery	10
Electrical Machinery	27
Motor Vehicles and Parts	38
Transportation:	
Railroads	11
Trucking	21
Air	12
Utilities:	
Electric	8
Natural Gas	6

* The iron and steel industry was in the red in 1983. For this year,r 1984, the after tax profits are projected by KEDI to be in the $220 million range.

There is a rosy outlook for personal income and personal disposable income. Both will go up. Look for a gain of 9 percent in 1984 and 7 percent in 1985. Both will be far above inflation. Adjusted for the forecast of the CPI, yields a real gain of 4.5 percent in spendable income this year and 3.2 percent in the following year. That is welcome change from the trend not many years ago of constantly lower real income as inflation more than wiped out any income gains.

Average weekly earnings of manufacturing workers will move ahead by 6 percent in 1984. The increase in 1985 is calculated at 5.7 percent.

A poll by Hay Management Consultants of 300 companies found that they expect industrial workers to get pay hikes averaging 5.7 percent in 1984. Workers in financial companies are expected to average 6.9 percent more in pay

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Personal income	bil.$	2578.6	2657.7	2713.6	2761.9	2837.0	2742.5	6.3
Personal disposable income	bil.$	2176.5	2255.9	2301.0	2361.7	2414.9	2333.3	7.2
Compensation of employees	bil.$	1865.7	1923.7	1968.7	2011.9	2064.3	1992.2	6.8
Corporate after tax profits	bil.$	115.1	108.2	127.2	141.9	148.9	131.6	14.3
Personal saving	bil.$	125.4	121.7	91.5	115.8	112.1	110.2	-12.2
Average weekly earnings	$	330.1	342.3	251.5	353.6	355.1	350.6	6.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2742.5	2898.6	2972.3	3030.8	3089.0	2997.6	9.3
Personal disposable income	bil.$	2333.3	2463.9	2522.5	2569.3	2617.0	2543.1	9.0
Compensation of employees	bil.$	1992.2	2105.3	2136.2	2180.1	2240.2	2165.5	8.7
Corporate after tax profits	bil.$	131.6	155.0	158.8	163.4	167.5	161.2	22.5
Personal saving	bil.$	110.2	126.8	124.9	140.7	147.2	137.4	24.6
Average weekly earnings	$	350.6	364.0	370.2	376.1	383.9	373.6	6.5

Indicator	Unit	1984	1985				.1985	%
			1	2	3	4		(1)
Personal income	bil.$	2997.6	3171.6	3233.3	3282.9	3338.1	3256.4	8.6
Personal disposable income	bil.$	2543.1	2688.0	2741.8	2783.4	2826.4	2859.9	8.3
Compensation of employees	bil.$	2165.5	2279.3	2310.4	2351.5	2374.7	2329.0	7.5
Corporate after tax profits	bil.$	161.2	175.1	178.4	179.3	179.8	178.2	10.5
Personal saving	bil.$	137.4	150.5	157.2	159.4	157.3	156.1	13.6
Average weekly earnings	$	373.6	386.7	388.9	391.5	395.2	390.6	4.5

*Historical data (1) % change over previous year

more in pay whereas service company workers will get 5 percent more according to the survey. These figures are compatible with KEDI projections. (The poll also showed that executives and managers can expect to be earning 10-18 percent more in 1984 when pay gains and bonuses are figured together.)

Income of farmers is finally going to surpass the 1981 record high of $30 billion according to projections at KEDI. Anticipate total income for those that grow the food we eat to reach $32 billion in 1984 and close to $34 billion in 1985.

1.70 MONEY AND CREDIT

(Table 1.70 on page 29)

KEDI agrees 100 percent with Volker's views on the central bank's primary goal--price stability. He announced this in late December at the joint meeting of the American Economic Association and the American Finance Association in San Francisco.

Such a view implies that the Federal Reserve should follow broader indicators in its monetary and credit policies. That is, the Fed should not be limited to moves on M1, M2, and other monetary aggregates but should also look to output, employment, and productivity as indicators to determine the policy. Mr. Volcker indicated he has and he will oppose rigid reliance on some narrowly defined rule for targeting money supply growth. (*The Wall Street Journal*, Dec.29, 1983.)

In fact, the Fed has already abandoned that policy--by chance. It happened just at the time when monetary aggregates came within the Fed target limits for M1, M2, and M3 around half an year ago. KEDI has maintained the position for over a year that such a position should be expanded to include other broader measures. (See the September, 1982, and previous issues of the *KEDI Economic Survey*.)

As to the Federal Reserve policy in the future, it is anticipated here that during the first half of this year, there will not be any significant changes. Toward the end of 1984, the Fed will exert some pressure to keep interest rates and the money supply from rising. During 1985, the policy is expected to remain tight throughout most of the year and to relax a bit toward the end of that year.

The forecast for monetary aggregates shows M1 growing slightly above

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Currency and demand deposits,M1	bil.$	473.5	490.3	505.2	516.4	519.8	507.9	7.2
Time deposits, adjusted,M2	bil.$	1918.2	2042.6	2095.1	2266.6	2281.4	2171.4	13.1
Consumer instal. credit	bil.$	343.4	342.3	353.0	367.6	376.8	376.8	9.7
Commerc.& indus. loans at banks	bil.$	392.2	397.8	395.9	401.5	402.9	402.9	2.7
Large denomination time dep.	bil.$	319.6	301.6	301.3	311.7	315.9	307.6	-3.8
Mortgages at S&L Assns.	bil.$	482.2	475.7	471.6	481.3	490.4	490.4	1.7

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	507.9	526.3	532.8	544.9	554.8	539.7	6.3
Time deposits, adjusted,M2	bil.$	2171.4	2314.6	2365.1	2381.2	2432.7	2373.4	9.3
Consumer instal. credit	bil.$	376.8	379.7	385.2	394.4	405.5	405.5	7.5
Commerc.& indus. loans at banks	bil.$	402.9	406.1	409.7	414.1	419.8	419.8	4.1
Large denomination time dep.	bil.$	307.6	318.4	322.4	324.5	325.7	322.7	6.3
Mortgages at S&L Assns.	bil.$	490.4	493.1	497.6	503.9	508.6	508.6	3.7

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	539.7	560.3	568.2	579.6	585.4	573.5	6.3
Time deposits, adjusted,M2	bil.$	2373.4	2458.9	2549.7	2636.4	2707.9	2588.2	9.1
Consumer instal. credit	bil.$	405.4	408.9	412.7	416.3	424.5	424.5	4.7
Commerc.& indus. loans at banks	bil.$	419.8	423.1	425.2	427.1	430.4	430.4	2.5
Large denomination time dep.	bil.$	322.4	329.1	334.5	339.6	344.1	336.8	6.7
Mortgages at S&L Assns.	bil.$	508.6	510.7	513.1	514.9	515.8	515.8	1.4

*Historical data (1) % change over previous year

MONEY AND CREDIT

6 percent in 1984 and also in 1985. M2 will expand by 9 percent this year and 9 percent in 1985. Look for consumer credit to be up 7 percent this year and 6 percent in 1985. Commercial and industrial loans will remain at low levels of growth: 4.1 percent more loans in '84 than in '83; 2.5 more in 1985.

1.80 INTEREST RATES, YIELDS, SECURITIES PRICES

(Table 1.80 on page 31)

Look for stable interest rates at levels close to current ones during the first half of 1984. Anticipate some slight increases in the latter part of this year. Most of 1985 will still have high rates, but some relaxation is expected by KEDI to take place around the end of the year.

The prime rate is seen at 11.5 by the end of 1984, 10.0 at the end of 1985. The mortgage rate is forecast at 13.0 percent by KEDI for the last of 1984. It will move down a bit to 12.2 percent by the end of 1985.

KEDI has stated over and over that there will NOT be any significant increases in interest rates in either 1984 or 1985. Private businesses will not be crowded out of the financial markets by federal borrowing needs.

The forecast here shows that no upward pressure on interest rates from red-ink in Washington will be exerted. There is no direct connection between interest rates and deficit size. There are funds available to meet borrowing needs as the table here shows.

	Net Borrowing Needs		Net Funds Available	
	(Billions of dollars)			
	1984	1985	1984	1985
Households			190	202
Businesses	60	78		
State and Local Govts.			20	25
Federal Government	190	185		
Rest of the World			40	36
Totals	250	263	250	263

The borrowing needs of businesses and federal government need not collide and they will not do so in the foreseeable future. The table shows that there will be adequate funds from private savings, state and local

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	% (1)
			1*	2*	3	4		
Treasury bills (3 mo) yield	%	10.20	8.11	8.40	9.32	9.61	8.86	-23.2
Prime rate	%	14.86	10.82	10.50	10.80	11.00	10.78	-27.5
Conventional mortgage rate	%	15.57	13.26	13.16	13.19	13.23	13.21	-15.2
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.49	12.59	12.08	-12.4
20 years Govt. bonds yield	%	12.70	10.87	10.81	11.62	11.76	11.26	-11.4
Standard & Poor's 500 Average	%	119.75	147.94	162.73	163.14	168.83	160.66	34.1

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	8.86	9.65	9.62	9.79	9.68	9.68	9.2
Prime rate	%	10.78	11.00	11.00	10.80	10.60	10.85	.7
Conventional mortgage rate	%	13.21	13.23	13.06	12.87	12.73	12.97	-1.9
Aaa corporate bonds rate	%	12.08	12.61	12.63	12.57	12.38	12.54	3.8
20 years Govt. bonds yield	%	11.26	11.70	11.83	11.97	12.04	11.88	5.5
Standard & Poor's 500 Average	%	160.66	164.24	160.75	163.57	167.21	163.94	2.0

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	9.86	9.32	9.21	9.04	9.14	9.15	-5.5
Prime rate	%	10.85	10.50	10.50	10.30	10.12	10.35	-4.6
Conventional mortgage rate	%	12.97	12.62	12.53	12.74	12.62	12.62	-2.7
Aaa corporate bonds rate	%	12.54	12.67	12.64	12.50	12.57	12.59	.3
20 years Govt. bonds yield	%	11.88	12.11	12.24	12.08	12.26	12.17	2.4
Standard & Poor's 500 Average	%	163.94	160.14	163.72	158.26	150.37	158.12	-3.5

*Historical data (1) % change over previous year

surpluses, and from the inflow of capital from overseas due to the high value of the dollar and high interest rates in the U.S.A.

Corporate needs will not clash with the federal borrowing needs. The high level of cash flow means there will be no need to do any heavy borrowing from financial markets. Profits are going up and inflation has been on the decline. Companies are deep in cash. Isn't that a nice position? The cash flow has really jumped ahead since the bottom of the past recession. Corporate debts are being repaid and capital spending needs are met without large borrowings. That situation will not change, neither this year nor in 1985. The table on the preceding page shows that that private borrowing needs are forecast $60 billion this year and $78 billion in 1985. Considering the capital consumption allowances and rising profits, these figures represent maximum rather than averages of borrowing needs. Hence, there will be enough room for meeting financing needs of private businesses. Corporations will not be committing to large construction projects. They will concentrate on replacing and repairing equipment and adding computers and automation devices aimed at saving money. Large construction will be viewed with skepticism--and indications are that companies will not be changing such views. They will not want to be caught with some half-built plant when a recession starts. (KEDI does not expect a recession. In 1986, there will be some slowing in growth. Recession? No way.)

Considering the absence of large construction projects in coming years, persistently high cash flow, and concentration on equipment purchases, the forecast shows that financial markets will have adequate funds for financing both borrowers, the federal government, and private businesses.

Stock market A stable performance is anticipated here during the first part of this year with increases in the second half of 1984. Although post-election markets are historically weak, KEDI does not expect any significant declines in early 1985. The high level is likely to persist into the second half of 1985 when some declines will take place. The forecast for Standard & Poor's 500 Average, yearly levels, is as follows: 1983, 160.04; 1985, 153.22.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

This comparison attempts to demonstrate KEDI's forecasting performance with regard to some indicators of nominal GNP, housing starts, car sales,the 3 mo Treasury bills, and some others,for the year 1982.In no way it represents an attempt to show who was the best or who was the worst. The forthcoming analyses conducted by Stephen McNees in the New England Economic Review (November/December, 1983, issue) demonstrates that it is extremely difficult, if not impossible, to assess which current forecast is most likely to be the best, and that investigations have shown that no single forecaster was most accurate for all or even most variables investigated.

In the following table the data has been collected from monthly issues of this Survey for 1983 in sections 2.00 "Comparisons of Accuracy of Predictions". The table shows the first and the second best fits, the forecasters' names, and the month of issue of the relevant KEDI ECONOMIC SURVEY, 1983.

TABLE 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

Indicator	Unit	% of Accuracy	Forecaster	KES Issue
Gross national product	bil.$	2.4	KEDI	November
		2.6	Morgan Guaranty Trust Co.	
Personal cons. expenditures	bil.$	.1	W.D.Fackler,The University of Chicago	April
		-.5	KEDI	
Personal cons. exp., durables	bil.$	1.3	Morgan Guaranty Trust Co.	May
		1.4	KEDI	
Government purchases	bil.$	.0	KEDI	August
		-.1		
Federal purchases	bil.$	-1.6	Metropolitan Life	June
		-1.0	KEDI	
State and local purchases	bil.$	-.4	Georgia State Metropolitan Life	September
		.6	KEDI	
Personal disposable income	bil.$	.5	Harris Trust and Savings Bank	July
		-1.6	KEDI	
Implicit GNP price deflator	bil.$	.0	Harris Trust and Savings Morgan Guaranty Trust Co.	October
		-.1	Peter L. Bernstein, Inc. Fidelity Bank KEDI	
Housing starts	mil.	-2.8	Morgan Guaranty Trust Co.	February
		-3.2	KEDI	
Car sales	mil.	5.1	UCLA	March
			KEDI	
3 mo Treasury bills yield	%	7.5	Chemical Bank; ASA & NBER	December
		9.4	KEDI	

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
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This forecast uses the January, 1984, U.S. Department of Commerce first estimates of 1983:4 National Income and Product data. Also used is the January 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Federal budget deficits will not be our downfall. State and local surpluses and the overseas' investment help lessen the impact a great deal. We will be fine as long as some cuts of around 10-20 percent of the deficit are made over the next few years. REAL GROWTH Expect growth of 4.9 percent this year. No recession. Gains in machine tools, in consumer confidence, and durable orders are developments that point away from any supposed recession some expect. PRICES Moderate inflation that was the norm in 1983 will also be on the agenda for 1984. Anticipate an average change in the CPI of 4.5 percent. EMPLOYMENT AND LABOR The fprecast of the jobless rate edging down to an average of 7.10 percent in the last quarter of this year remains the same. HOUSING Due to the cost of a new house and to the high level of interest rates,improvement here will be slow -- as has been maintained for some time. Starts are projected at 1.8 million for this year. AUTOS A small revision in the forecast leads to sales amounting to 9.9 million during 1984. Consumers are getting more interested in bigger cars and less concerned about how many miles they get a gallon. BUDGETS KEDI is rather close to the Administration forecast of the deficit over the next few years. Currently, the proposals of chopping $20-30 billion of the red-ink total are seen as possible and applaudable. INCOME The outlook here is for some gains that will not be wiped out by inflation. However, labor contracts negotiated settlements are seen as falling below the moderate level of inflation that is anticipated. (Foreign competition and healthy gains of bygone years do influence here.) MONEY AND CREDIT Expect that generally restrictive Fed policy continue. Growth of the money supply has lessened each quarter recently. INTEREST RATES, YIELDS, AND SECURITIES PRICES Rates are still forecast as remaining at rather high levels such as those that exist currently. However, the slight downward trend is still part of the forecast. Bond prices are seen as only moving fractionally. No significant ups or downs at the stock market are forecast.

1.02 OVERVIEW

Of growing concern to political candidates, among others, is the size of the federal budget deficit -- frequently perceived as the looming threat that will destroy the economic recovery and cause interest rates to leap ahead. As it has been for well over two years, the forecast here continues to be one that allows for slow growth, adequate funds from various sectors to finance private business needs, and interest rates that do not essentially change much but do move in a slight downward general direction over the next two years.

First, calculations show the Administration's projection of reducing the deficit by $20 billion in 1986 and $30 billion in each of the next two years IS A REALISTIC GOAL.

Second, the problem is that the deficit issue has become too political. It is a mania with some. Economically, there is nothing wrong with such large deficits, because there are funds available from private savings, investments by state and local governments putting their surpluses to work, and also from abroad.

Thirdly, federal deficits have to exist for as long as state and local authorities have surpluses. IT WOULD BE A CATASTROPHE TO BALANCE THE BUDGET IN WASHINGTON WHILE THERE ARE HUGE AND GROWING SURPLUSES AT STATE AND LOCAL LEVELS. Federal deficits should about match the level of state and local surpluses or should not decline too much below that level. State and local surpluses will be in the $70-80 billion range in 1987 and 1988. They will move up as recovery continues. (See Table 1.50)

Interest Rates

Interest rates have to remain on a relatively high plain for two basic reasons:

1. If they go down, especially the long-term rates such as mortgage rates and auto loan rates, then too much credit will be created and too much money will be in circulation. The result? Inflation sky-rocketing. As an example, KEDI calculates that mortgage rates of around 11 percent mean 2.4 million new houses would be built and that also means 9 percent inflation in 1985.

2. Another factor contributing to why (like it or not) interest rates need to stay relatively high is because they attract foreign capital. That keeps

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national	bil.72$	1485.4	1534.8	1685.1	1744.1
product	% change	-1.9	3.3	1.8	3.5
Index of industrial	1967=100	138.6	147.9	174.8	180.0
production	% change	-9.2	6.7	2.5	10.3
Capacity	%	71.1	75.3	80.4	81.5
utilization	% change	-3.0	5.9	-2.3	1.4
Unemployment	%	9.72	9.58	7.09	6.95
rate	% change	27.6	-1.5	1.9	-2.0
Private housing	mil.units	1.062	1.719	1.604	1.754
starts	% change	-2.0	61.9	-3.1	9.4
Car	mil.units	8.0	9.0	9.8	10.0
sales	% change	-6.5	12.5	-.1	2.0
Implicit GNP	1972=100	206.9	215.6	245.8	258.3
price deflator	% change	6.0	4.2	4.9	5.1
Consumer price	1967=100	288.6	297.8	339.0	355.6
index	% change	6.0	3.2	4.3	4.9
Producer price index	1967=100	280.7	284.7	332.3	351.6
(Finished goods)	% change	4.0	1.4	5.8	6.1
Federal	bil.$	-147.1	-180.1	-131.4	-104.3
deficit	% change	-136.5	-22.4	-14.4	-20.6
Personal	bil.$	2587.6	2741.8	3340.6	3637.9
income	% change	5.9	6.3	4.1	8.9
Prime	%	14.86	10.78	10.84	10.21
rate	% change	-2.2	-27.5	4.0	-5.8
Mortgage	%	15.57	13.42	12.72	12.28
rate	% change	2.4	-13.8	.1	-3.5
Currency plus	bil.$	473.5	507.9	602.0	642.3
demand deposits	% change	6.9	7.2	5.2	6.7
Commercial and	bil.$	392.2	403.4	441.0	456.9
industrial loans	% change	9.5	2.8	2.2	3.6

Numbers in "% change" rows show percent changes over the previous year

the overseas demand for dollars up. Consequently;

A. Federal deficits are financed to a large extent by foreign countries. This alleviates pressures on domestic financial markets.

B. A high international value of a U.S. dollar is quite important for our prestige abroad. Americans are no longer regarded as poor relatives -- as was true just a few years ago.

Hence, the system does work. To sum it up, deficits are financed through surpluses of state and local governments, private savings, and from overseas.

- High profits and cash flow of businesses supply funds for financing large portions of capital outlays
- High interest rates and restrictive Fed policy keeps inflation low
- The high rates of interest attract foreign capital to finance part of the federal deficit, to supply additional funds to financial markets, and to keep the international value of the dollar high.

THE SYSTEM JUST OUTLINED WILL WORK FAIRLY WELL FOR ONE OR TWO YEARS - - BUT NO LONGER. The red ink flowing out of Washington should be reduced by about $80 billion to a total of around $100 billion by late 1987. Put another way, if the deficit amounts to about $100 billion by 1988, this country's economy will remain functionning pretty well with sustained growth. KEDI does support the plan of the Administration which calls for cutting red ink over the next three years.

The first stage of the Administration's economic policy worked well. Now it is time to start preparing the second stage of the policy -- to restore a better balance between revenues and outlays, exports, and imports.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumption No. 2 has been updated.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.
2. It is expected that the Mid East problems will continue throughout

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983 1*	2*	3	4	1983	% (1)
Gross national product	bil. 72 $	1485.4	1490.1	1525.1	1553.4	1570.7	1534.8	3.3
Index of industrial production	1967=100	138.6	138.5	144.5	151.7	156.9	147.9	6.7
Unemployment rate	%	9.7	10.3	10.1	9.4	8.5	9.6	-1.0
Capacity utilization rate	%	71.1	70.7	73.8	77.2	79.4	75.3	5.9
Private housing starts	mil.	1.062	1.694	1.683	1.788	1.712	1.719	61.9
Car sales	mil.	8.0	8.4	8.8	9.3	9.4	9.0	12.5

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product	bil. 72 $	1534.8	1585.6	1602.2	1617.3	1629.1	1608.6	4.8
Index of industrial production	1967=100	147.9	159.7	162.7	167.0	169.6	164.7	11.4
Unemployment rate	%	9.6	7.8	7.7	7.6	7.2	7.6	-20.5
Capacity utilization rate	%	75.3	80.2	81.3	82.2	83.0	81.7	8.5
Private housing starts	mil.	1.719	1.559	1.903	1.954	1.689	1.776	3.3
Car sales	mil.	9.0	9.7	9.9	9.9	9.8	9.9	10.0

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil. 72 $	1608.6	1640.2	1651.4	1660.2	1669.5	1655.3	2.9
Index of industrial production	1967=100	164.7	169.5	171.5	171.9	169.2	170.5	3.5
Unemployment rate	%	7.6	7.0	6.9	6.9	7.0	7.0	-8.7
Capacity utilization rate	%	81.7	83.2	83.0	81.9	81.0	82.3	.7
Private housing starts	mil.	1.776	1.536	1.830	1.898	1.545	1.703	-4.9
Car sales	mil.	9.9	9.8	9.9	9.7	9.7	9.8	.1

*Historical data (1) % change over previous year

ASSUMPTIONS

this year and the next year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1986 or 1987.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1987 period. In 1984, stabilizing is expected. Some temporary relaxation will take place in 1986.

5. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

6. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%, Japan 2.6%.

7. No drastic changes in international relationships are anticipated.

The February 1984 KEDI forecast is highlighted on page 3.

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The forecast of the rate of growth for 1984 has been the same for many months: 4.9 percent. That forecast is maintained in this issue. It is not as upbeat as Henry Kaufman's 5.5 percent. Then again, it is not down to the average from the survey by Blue Chip Economic Indicators. Growth came out to a 4.4 percent average there.

KEDI shares the forecast of the Commerce Department that growth, as measured by inflation-adjusted GNP, would be approximately at a 4.5 percent rate between the last quarter of 1983 and the last quarter of 1984.

Do not look to any recession. Some economists predict there will be one due to restrictive monetary policy. KEDI does not share the view of Milton Friedman that a new recession will have a 50 percent chance of starting near the end of current quarter unless the Federal Reserve loosens up a bit.

Others such as G. Moore, of Columbia University's Business Cycle Research Center anticipate a recession as being quite likely in 1985. Again, KEDI does not share that view, either.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Gross national product	bil. 72 $	1435.4	1490.1	1525.1	1553.4	1570.7	1534.8	3.3
Personal cons. expenditures	bil. 72 $	970.2	986.7	1010.6	1016.2	1032.2	1011.3	4.2
Gross private dom.investment	bil. 72 $	194.5	190.0	210.0	230.7	242.5	218.3	12.2
Net exports	bil. 72 $	28.9	20.5	12.3	11.4	2.5	11.6	-59.6
Federal govt. purchases	bil. 72 $	116.6	118.4	117.6	118.9	116.9	118.0	1.2
State and local purchases	bil. 72 $	175.2	174.5	175.4	176.3	176.3	175.6	.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil. 72 $	1534.8	1585.6	1602.2	1617.3	1629.1	1608.6	4.8
Personal cons. expenditures	bil. 72 $	1011.3	1043.9	1049.3	1057.6	1065.0	1053.9	4.2
Gross private dom.investment	bil. 72 $	218.3	245.6	248.7	254.1	257.2	251.4	15.2
Net exports	bil. 72 $	11.6	-2.4	-3.5	-2.1	2.2	-1.5	--
Federal govt. purchases	bil. 72 $	118.0	119.4	120.6	121.2	122.3	120.8	2.3
State and local purchases	bil.	175.6	179.1	180.1	182.3	182.4	181.0	3.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil. 72 $	1608.6	1640.2	1651.4	1660.2	1669.5	1655.3	2.9
Personal cons. expenditures	bil. 72 $	1053.9	1068.2	1075.1	1079.8	1083.7	1076.7	2.1
Gross private dom.investment	bil. 72 $	251.4	258.7	260.3	260.8	262.4	260.5	3.6
Net exports	bil. 72 $	-1.5	4.1	4.3	3.7	4.5	4.1	--
Federal govt. purchases	bil. 72 $	120.8	124.3	125.7	127.9	128.8	126.6	4.8
State and local purchases	bil.	181.0	184.9	186.0	188.0	190.1	187.2	3.4

*Historical data (1) % change over previous year

REAL GROWTH

Following are some recent economic developments that lend credence to the non-recessionary view seen here:

1. Machine tool orders moved ahead 25 percent in December from the depressed total of a year earlier even though December was a bit lower than November. Most expect that gains will continue as it is broadly based and getting boosts from defense-related business. For 1983 as a whole, such orders increased 13 percent.

2. The Conference Board reported that consumer confidence was at five-year high in December.

3. Military orders contributed to pushing total orders to U.S. manufacturers up by 2.2 percent in November.

4. Even though interest rates will keep housing construction on the low side, increased family income and more existing home sales will help the housing industry. (The reader is referred to Section 1.41)
Building spending held steady through November. The slight housing drop was offset by increased industrial and commercial spending. KEDI shares the view of Michael Evans of Evans Economics that construction will be fairly weak in the near future.

5. Durable goods orders had been climbing since mid-summer, but edged down in December by 1.1 percent. Still, for the year as a whole, a gain of 16.9 percent was achieved over the 1982 total. Volatile defense orders contributed to the December downward move. On a lighter note, orders for nondefense capital goods were up 1.8 percent in December.

6. Retail sales moved in December -- but barely. Still, they are holding. The 0.1 percent increase in the last month of last year is not seen here as anything to cause concern. Whereas nondurable sales were off by 0.7 percent in December, durable sales were up by healthy 1.6 percent.

The foreign trade situation has its pluses and minuses. The strong dollar aids the federal deficit as was noted in the Overview section. However, it contributes to weakening exports and aiding imports. This is seen as continuing by KEDI. Net exports will plummet and slow the rate of growth because of the aforementioned strong dollar.

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Consumer price index,n.s.a.	1967=100	288.6	292.5	296.1	299.5	303.3	297.8	3.2
Producer price index,n.s.a.**	1967=100	280.7	283.8	284.1	285.7	285.8	284.7	1.4
Price deflators:								
GNP	1972=100	206.9	212.8	214.5	216.4	218.5	215.6	4.2
Personal cons. expenditures	1972=100	205.3	210.1	212.5	214.7	216.3	213.4	3.9
Gross private dom.investment	1972=100	213.1	212.9	214.1	217.2	218.5	215.6	1.2
Federal purchases	1972=100	221.9	230.0	232.7	233.9	235.8	233.1	5.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	297.8	305.5	309.3	311.0	315.9	310.4	4.2
Producer price index,n.s.a.	1967=100	284.7	290.2	294.2	298.5	304.4	296.8	4.2
Price deflators:								
GNP	1972=100	215.6	220.5	222.8	225.7	228.0	224.2	4.0
Personal cons. expenditures	1972=100	213.4	217.4	221.0	223.4	224.8	221.6	3.8
Gross private dom.investment	1972=100	215.6	219.9	222.9	225.7	228.7	224.3	4.0
Federal purchases	1972=100	233.1	237.8	239.5	241.4	244.6	240.8	3.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	310.4	319.0	322.1	326.9	332.1	325.0	4.7
Producer price index,n.s.a.	1967=100	296.8	306.1	311.8	316.9	321.4	314.1	5.8
Price deflators:								
GNP	1972=100	224.2	229.6	232.9	235.7	239.1	234.3	4.5
Personal cons. expenditures	1972=100	221.6	227.0	230.0	232.0	234.2	230.8	4.2
Gross private dom.investment	1972=100	224.3	230.4	232.6	235.4	241.3	234.9	4.7
Federal purchases	1972=100	240.8	245.7	247.8	251.4	256.3	250.3	3.9

*Historical data (1) % change over previous year **Finished goods

REAL GROWTH

U.S. trade Representative William Brock pointed out that the strong dollar has hurt exports but also has helped keep inflation down -- a view that has been expressed here before.

Secondly, look for imports to grow more because other countries have built protective barriers for themselves. The U.S.A. is lonely in that it remains a relatively free trade area. Consequently, more and more goods get channeled to this nation.

Thirdly, shortages of dollars and debts of Third World countries have forced them to cut back on their imports. So not only are they sending more goods abroad (frequently, into this country) but, they are also buying less (frequently less from us.)

1.20 PRICES AND NOMINAL GNP

(Tables 1.21 and 1.22 on pages 9 and 11)

The forecast is not changed. Price changes will be of a moderate nature. The inflation rate of all of 1983 came to just 3.8 percent. The rate for December was 0.3 percent. The 3.8 percent for the year is the widely published figure based on changes from December '82 to December '83. KEDI and others use a year-average figure based on quarterly data and that yields a lower figure close to 3.2 percent.

During 1983, food costs went up just 2.7 percent while the cost of fuel oil, bottled gas and coal went down 9.4 percent. Even gasoline was off by 1.6 percent -- welcome relief from the upward-bound leaps of not too many years ago.

Presented here are the actual data for 1983 and the KEDI forecast for the changes in the CPI in 1984.

Consumer Price Index
(Percent changes from prior year)

	Actual Data 1983	KEDI Forecast 1984
Fuel Oil, Coal, Bottled Gas	-9.4	+1.5
Natural Gas	+5.2	+2.7
Gasoline	-1.6	+1.7
Food	+2.7	+4.5
Clothing	+2.9	+3.4
Transportation	+3.9	+5.6
Medical Care	+6.4	+7.8
Housing	+3.5	+5.2

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1*	 2*	 3*	 4	1983	% (1)
Gross national product	bil.$	3073.0	3171.5	3272.0	3362.2	3432.0	3309.4	7.7
Personal cons. expenditures	bil.$	1991.9	2073.0	2147.0	2181.1	2233.1	2158.5	8.3
Gross private dom.investment	bil.$	414.5	404.1	450.1	501.1	529.8	471.2	13.7
Net exports	bil.$	17.4	17.0	-8.5	-18.3	-32.6	-10.6	--
Federal govt. purchases	bil.$	258.7	273.5	273.7	278.1	275.6	275.2	6.4
State and local purchases	bil.$	390.5	404.0	409.7	420.2	426.1	415.0	6.3

Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Gross national product	bil.$	3309.4	3496.2	3569.7	3650.2	3712.0	3607.0	9.0
Personal cons. expenditures	bil.$	2158.5	2269.6	2319.2	2363.4	2394.0	2336.5	8.2
Gross private dom.investment	bil.$	471.2	540.0	554.3	573.5	588.2	564.0	19.7
Net exports	bil.$	-10.6	-32.4	-33.3	-27.6	-23.3	-29.3	--
Federal govt. purchases	bil.$	275.2	283.8	288.7	292.2	298.2	290.7	5.6
State and local purchases	bil.$	415.0	435.2	441.3	448.7	454.9	445.0	7.2

Indicator	Unit	1984	1985 1	 2	 3	 4	1985	% (1)
Gross national product	bil.$	3607.0	3765.7	3846.1	3913.0	3991.7	3879.2	7.5
Personal cons. expenditures	bil.$	2336.5	2445.8	2469.4	2504.5	2538.1	2484.4	6.3
Gross private dom.investment	bil.$	564.0	596.0	605.4	613.9	633.1	612.1	8.5
Net exports	bil.$	-29.3	-20.5	-15.0	-8.9	-1.2	-11.4	--
Federal govt. purchases	bil.$	290.7	301.0	310.7	320.3	327.9	314.9	8.3
State and local purchases	bil.$	445.0	463.5	475.6	483.2	493.8	497.0	7.6

*Historical data (1) % change over previous year

PRICES

Inflation for producer prices was at the lowest level it has seen in the past 20 years. For the year, the PPI was up by just six-tenths of one percent. (It had jumped by 7.1 percent in 1981 and 3.7 in 1982.) Within that is a bite of bad news: beef prices have been accelerating of late. The increase here was 6.3 percent in December alone. Summer drought and high feed costs contributed to more farmers sending their cattle to slaughter. The reduction in herd size will add to consumer costs as supply and demand reach a new balance at the meat counter.

KEDI forecast of nominal GNP in 1984 and 1985 remains essentially unchanged when compared to forecast data presented in the January issue of this Survey: In 1984, nominal GNP will increase by 9 percent and in 1985 will go up by additional 7.5 percent. A slower growth in 1985 than in 1984 is due mostly to a slowdown in the growth of the real GNP -- the 1985 rate of growth of the real GNP is forecast close to 2.9 percent compared to the 4.9 percent rate projected for 1984. The forecast data of the main component of GNP,Personal Consumption Expenditures shows corresponding trends: in 1984 the increase by 8.2 percent over 1983, and a smaller increment of 6.3 percent in 1985 over 1984. Data for 1985 show a more balanced GNP when compared to the GNP of this year. Next year business capital outlays will not grow as fast as they are expected this year: 19.7 percent in 1984 compared to 8.5 percent next year. In 1985 the foreign trade balance will look better than this year: the foreign trade deficit as measured by the National Accounts will drop from an expected $29.3 billion to a more comfortable figure of $11.4 billion in 1985. In general, the outlook for the 1985 nominal GNP is more favorable than that for 1984: two major imbalances will be reduced. significantly.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast is not changed. The outlook is for more gradual declines in 1984. The jobless rate is seen at 7.2 in the last quarter of this year. The drop in the jobless rate will be more mild in 1985. Fourth quarter unemployment for that year will be close to 7 percent. At the same time the number employed will be growing more rapidly.

Joblessness has been going down faster during this recovery than in prior ones.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	235.1	232.9	1.4
Civilian labor force	mil.	110.2	110.5	111.1	112.4	112.9	111.7	1.4
Employment	mil.	99.5	99.1	100.0	101.8	103.3	101.0	1.6
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	96.1	95.7	96.6	98.4	99.9	97.7	1.7
Unemployment rate	%	9.72	10.34	10.10	9.43	8.46	9.58	-1.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.8
Civilian labor force	mil.	111.7	113.8	114.5	115.4	116.8	115.1	3.0
Employment	mil.	101.0	104.9	105.7	106.7	108.4	106.4	5.4
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	97.7	101.5	102.3	103.3	105.0	103.0	5.5
Unemployment rate	%	9.58	7.84	7.69	7.56	7.18	7.56	-21.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	115.1	117.8	119.4	121.0	122.3	120.1	4.3
Employment	mil.	106.4	109.5	111.1	112.6	113.8	111.8	5.1
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	103.0	106.1	107.7	109.2	110.4	108.4	5.2
Unemployment rate	%	7.56	7.04	6.92	6.94	6.96	6.96	-7.9

*Historical data (1) % change over previous year

EMPLOYMENT AND LABOR

The number of discouraged workers declined in the fourth quarter of 1983 to 1.5 million. Such people who want to work but gave looking after fruitless searches had reached a peak of 1.85 million in the latter part of 1982.

In 1985 there will be some slowing as the jobless rate hovers around 7 percent, but expect no recession. Again, total employment will go up close to 111 million whereas the 1983 figure was close to 104 million.

The forecast by KEDI for the unemployment rate as a yearly average is as follows:

1984	7.56
1985	6.96
1986	7.13
1987	6.83
1988	6.64

1.41 HOUSING

(Table 1.41 on page 15)

The outlook for housing starts is not changed here. Look for a total of 1.8 million for 1984. That is in general line with J. Carlson of the National Association of Realtors (NAR) as he expects 1.75 million units, and the same as the recently issued projection of the National Association of Home Builders.

It is mainly the interest rates that put a damper on anything more than very gradual improvements in housing. Still, one should not scoff at 1.8 million. That would show a steady gain over the 1.7 million of 1983 (forecast since August by KEDI) and a far cry from the roughly one million starts of gloomy '82. Starts were off in December, but that was due to the very cold weather, in particular. Hence, the 11.4 percent drop of that month is not of major concern or indicative of some new recession to come.

Housing permits were only off by 2.3 percent in December. For all of 1983, these gained by 60 percent over the 1982 total. The 2.3 percent December 1983 drop is not significant. It points to a good level of housing starts this year.

Housing sales are expected to be strong in 1984. For existing homes the NAR looks to a price hike of 6 percent this year and also next year. KEDI sees inflation in the prices of existing homes being higher as is shown:

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3 *	4		(1)
Single-family housing starts	mil.	.663	1.079	1.104	1.061	1.024	1.067	60.9
Multifamily housing starts	mil.	.399	.615	.579	.727	.683	.652	63.4
Mobile home shipments	mil.	.239	.299	.301	.289	.279	.292	22.8
Permits authorized	mil.	1.000	1.464	1.639	1.647	1.626	1.594	59.4
1-family unit price, new**	tho.$	83.8	86.7	89.1	92.4	93.2	90.4	7.8
1-family unit price,exist.**	tho.$	80.4	80.5	82.6	83.9	85.2	83.0	3.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.067	.940	1.214	1.230	.997	1.095	2.6
Multifamily housing starts	mil.	.652	.619	.689	.724	.692	.681	4.4
Mobile home shipments	mil.	.292	.278	.301	.312	.286	.294	.8
Permits authorized	mil.	1.594	1.511	1.697	1.748	1.689	1.668	4.6
1-family unit price, new**	tho.$	90.4	95,7	97.2	99.8	101.4	98.5	9.0
1-family unit price,exist.**	tho.$	83.0	87.3	90.8	92.1	93.0	90.8	9.4

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.095	.896	1.159	1.202	.914	1.043	-4.7
Multifamily housing starts	mil.	.681	.640	.671	.696	.631	.660	-2.2
Mobile home shipments	mil.	.294	.270	.282	.285	.267	.276	-6.1
Permits authorized	mil.	1.668	1.483	1.589	1.629	1.495	1.549	-7.2
1-family unit price, new**	tho.$	98.5	104.6	106.7	108.1	108.9	107.1	8.7
1-family unit price,exust.**	thos.$	90.8	94.8	96.5	97.7	99.2	97.0	6.9

*Historical data (1) % change over previous year **Not seasonally adjusted

HOUSING

Forecast of Percentage Gain in Home Prices
(Existing homes,Year-to Year)

	NAR	KEDI
1984	6.0	8.3
1985	6.0	7.1

Median prices for new homes were up 8.3 percent in 1983 to $75,100 and average prices went up 6.6 percent to $89,400. KEDI projects new home price going up 8.3 percent to an average $98,500 in 1984.

1.42 AUTOMOBILES

(Table 1.42 on page 17)

There is a small change in the forecast for domestic car sales and production in this issue. Anticipate domestic sales reaching 7.4 million this year (as opposed to 7.3 million forecast in the last issue). Factory shipments of autos will also go up by an additional 0.1 million to 7.5 million in this issue as compared to January. The slight adjustment is due to the upwards revision of sales of mid-size and large cars and the better-than-expected performance in January.

The forecast for small cars remains the same. (Not everyone forgets or adjusts to high gas costs. Some remain committed to high m.p.g.) KEDI expects some incentives will be initiated to bolster sales of small autos.

Forecast data for light trucks sales remain unchanged when compared to the January issue.

1.50 BUDGETS

(Table 1.50 on page 19)

Whereas in the past, KEDI has viewed the federal deficits as being different in forecasts than the Administration, currently, the two forecasts are fairly close together.

Deficits in Billions of Dollars

Fiscal Year	KEDI	Administration
1985	184	180
1986	173	177
1987	170	181
1988	158	152
1989	130	123

Of course, the projection here is under the assumption that the red-ink

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Passenger cars:								
Total sales	mil.	8.0	8.4	8.8	9.3	9.4	9.0	12.5
Domestic	mil.	5.8	6.0	6.6	6.9	7.1	6.7	15.5
Imported	mil.	2.2	2.4	2.2	2.3	2.3	2.3	4.5
Dealers inventories, n.s.a.	mil.	1.9	1.2	1.3	1.5	1.7	1.5	-21.1
Factory shipments	mil.	5.0	6.0	6.7	7.3	7.2	6.7	34.0
Light-duty truck sales	mil.	2.1	2.1	2.5	2.6	2.7	2.5	19.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.0	9.7	9.9	9.9	9.8	9.9	10.0
Domestic	mil.	6.7	7.3	7.5	7.5	7.2	7.3	10.6
Imported	mil.	2.3	2.4	2.4	2.4	2.6	2.5	8.7
Dealers inventories, n.s.a.	mil.	1.5	1.6	1.5	1.7	1.2	1.6	6.7
Factory shipments	mil.	6.7	7.5	7.7	7.7	7.0	7.4	10.5
Light-duty truck sales	mil.	2.5	2.7	2.8	3.0	2.5	2.8	12.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.9	9.8	9.9	9.7	9.7	9.8	.1
Domestic	mil.	7.3	7.3	7.5	7.3	7.3	7.4	1.3
Imported	mil.	2.5	2.5	2.4	2.4	2.4	2.4	-3.0
Dealers inventories, n.s.a.	mil.	1.6	1.6	1.7	1.7	1.8	1.7	6.3
Factory shipments	mil.	7.4	7.5	7.4	7.2	7.1	7.4	1.1
Light-duty truck sales	mil.	2.8	2.8	2.8	3.0	2.8	2.9	3.6

*Historical data (1) % change over previous year

BUDGETS

total will be cut in fiscal 1985 by $30 billion; in fiscal '86 and '87 by an additional $20 billion in each of those years. KEDI does support the proposals to trim the budgets by those amounts and is aware that it will not be easy. Attempts to make it a more pallative package to Congress and voters will include less controversial cuts such as "loophole closing" and cutting government waste.

The forecast of state and local budgets and their surpluses remains essentially the same. Again, these surpluses (with the exception of a few states in temporary trouble such as Oklahoma) will find their way into financial markets to the tune of a total of at least $60 billion this year. That certainly lessens the burden of Washington's over-spending.

1.60 INCOME

(Table 1.60 on page 21)

The forecast of personal income and personal disposable income is not changed. Personal income was up a solid 0.9 percent in December. It showed an inflation adjusted gain of 3.2 percent from the year-earlier figure.

The long-term outlook for Personal Income and Personal Disposable Income is given here.

Percentage Change from the Previous Year

	Personal Income	Personal Disposable Income
1984	9.0	8.7
1985	7.4	6.9
1986	6.6	6.5
1987	7.8	7.6
1988	8.4	8.2

During 1984, it is foreseen that wage increases will not push up price gains significantly. On the average, KEDI projects that hourly compensation will grow roughly 5.5 percent. That is slightly more than the 1983 figure of 4.8 percent.

That is just not an alarming number when viewed in the context of the 8-9 percent hikes negotiated in pre-recession contracts.

Recently released data from the Labor Department show that last year gains were modest and will certainly influence the outcome of present negotiations.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Federal government:								
Income taxes	bil.$	304.7	297.7	304.2	286.9	294.3	295.7	-3.0
Corpor.profits tax accruals	bil.$	45.6	48.6	59.3	66.8	72.7	62.0	36.0
Surplus/deficit	bil.$	-147.6	-183.3	-166.1	-188.5	-182.5	-180.1	-22.4
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.4	113.3	116.4	110.5	13.5
Corpor.profits tax accruals	bil.$	12.7	12.9	16.2	18.4	19.7	16.8	32.2
Surplus/deficit	bil.$	31.3	40.4	41.0	55.5	56.9	48.4	54.8

Indicator	Unit	1983	1984				1984	%
			1	2.	3	4		(1)
Federal government:								
Income taxes	bil.$	295.7	304.3	320.5	334.5	345.7	326.7	10.3
Corpor.profits tax accruals	bil.$	62.0	76.1	79.5	81.4	84.3	80.3	29.5
Surplus/deficit	bil.$	-180.1	-179.1	-174.2	-169.6	-168.4	-172.8	-4.0
State and local governments:								
Income taxes	bil.$	110.5	120.1	122.3	126.8	128.9	124.5	12.6
Corpor.profits tax accruals	bil.$	16.8	21.6	22.0	23.8	24.2	22.6	24.8
Surplus/deficit	bil.$	48.4	60.4	61.8	64.8	67.3	63.5	31.2

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	326.7	353.9	360.6	362.0	369.2	361.4	10.8
Corpor.profits tax accruals	bil.$	80.3	34.1	86.0	87.4	88.6	86.5	7.7
Surplus/deficit	bil.$	-172.8	-160.2	-158.3	-152.4	-143.1	-153.5	-11.2
State and local governments:								
Income taxes	bil.$	124.5	132.5	133.7	135.9	138.9	135.2	8.6
Corpor.profits tax accruals	bil.$	22.6	26.8	28.7	29.2	30.1	28.7	27.0
Surplus/deficit	bil.$	63.5	69.6	72.0	73.4	75.1	72.5	14.7

*Historical data (1) % change over previous year

INCOME

During 1983, the average pay hike was 2.6 percent for the first year of major contracts. Over the life of the contract, the average came to just 2.8 percent. In 1982, that figure was 3.6 percent.

No significant changes in projections of corporate profits took place when compared to the last month's projections.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

The forecast of the money supply remains the same. Growth in M1 and M2 will not be inflationary. Moderate expansion is projected. KEDI does not agree with those that see the Fed loosening the purse strings (so-to-speak) and a torrent of inflation and recession pushing us backward.

KEDI anticipates the Federal Reserve will maintain a generally restrictive policy. Expansion of M1 has slowed and is seen here as continuing to slow. Now, M1 is above the average of the fourth quarter of last year by just 1.1 percent. That is a real slowing down.

Faster growth of the money supply, M1 and M2 is expected in the latter part of this year. Anticipate that the Fed will take actions to restrict it.

KEDI anticipates that the money supply, M1 and M2 will also grow moderately in 1985. (See Table 1.70)

This year, the fastest growing credit market instrument will be consumer installment credit. Expect a continuous strong demand for automobile loans and significant increases in credit cards balances. Commercial and industrial loans will increase by approximately 4 percent due mainly to the expected increases in business inventories.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The forecast for close to stable rates is maintained here for the first half of this year. There will be some temporary slight downward move in the second part of the year, followed by a return to relatively high levels to the end of this year, and stabilization throughout most of 1985.

Again, private business will not be crowded out of financial markets due to the federal budget deficits. Interest rates will not skyrocket because

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Personal income	bil.$	2578.6	2657.7	2713.6	2761.9	2834.2	2741.8	6.3
Personal disposable income	bil.$	2176.5	2255.9	2301.0	2361.7	2423.6	2335.5	7.3
Compensation of employees	bil.$	1865.7	1923.7	1968.7	2011.9	2056.0	1990.0	6.7
Corporate after tax profits	bil.$	115.1	108.2	127.2	141.9	147.8	131.2	14.0
Personal saving	bil.$	125.4	121.7	91.5	115.8	123.5	113.1	-9.8
Average weekly earnings	$	330.1	342.3	351.5	356.8	360.1	352.7	6.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2741.8	2888.7	2956.2	3028.9	3082.0	2989.0	9.0
Personal disposable income	bil.$	2335.5	2464.3	2513.4	2567.6	2607.5	2538.2	8.7
Compensation of employees	bil.$	1990.0	2100.9	2130.4	2172.3	2230.1	2158.4	8.4
Corporate after tax profits	bil.$	131.2	154.9	158.6	163.2	167.2	161.0	22.7
Personal saving	bil.$	113.1	127.5	126.3	135.8	144.3	132.0	16.7
Average weekly earnings	$	352.7	364.8	370.6	378.0	385.4	374.7	6.2

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	2989.0	3133.3	3192.8	3234.8	3275.1	3209.0	7.4
Personal disposable income	bil.$	2538.2	2646.9	2698.8	2736.9	2767.7	2712.6	6.9
Compensation of employees	bil.$	2158.4	2268.4	2297.5	2339.1	2360.2	2316.3	7.3
Corporate after tax profits	bil.$	161.0	174.9	178.1	178.9	179.2	177.8	10.4
Personal saving	bil.$	132.0	151.2	158.6	160.5	156.3	156.6	18.7
Average weekly earnings	$	374.7	390.4	396.7	401.4	407.7	399.1	6.5

*Historical data (1) % change over previous year

INTEREST RATES

because of federal government borrowing needs. The upward pressure on interest rates will come from the side of businesses. KEDI anticipates that the Federal Reserve will not allow the interest rates being pushed up significantly.

The forecast of the stock market remains unchanged when compared to data published in the last issue of this Survey. KEDI's 1984-1985 forecast shows a stable performance with no significant ups and downs throughout that period. Some longer-lasting declines are expected to take place in the second half of 1985.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Gross Private Domestic Investment in current dollars in 1983 has been selected for comparison. The actual figure is the U.S. Department of Commerce January 20, 1984 estimate. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Gross Private domestic Investment, 1983, bil. curr.$)

Actual figure: 472

Forecaster (and page in source)	Date of Forecast	Forecast	% of Accuracy
Albert T. Sommers, The Conference Board, pg8	11/17/82	487	3.2
National Securities and Research Corporation, pg 8	11/18/82	481	1.9
Calvin C. Myers, The Merchants National Bank of Aurora, pg 10	12/82	489	3.6
U.S. Trust Company of New York, pg 10	12/82	448	-5.1
Walter D. Fackler, University of Chicago, pg12	12/8/82	478	3.2
United Business Service, pg 12	12/13/82	464	-1.7
Georgia State University, pg 17	11/82	470	.4
Manufacturers Hanover Trust, pg 22	12/82	471	.2
UCLA, pg 23	12/82	465	-1.5
Metropolitan Life Insurance Company, pg 24	12/1/82	474	.4
The Fidelity Bank, pg 25	12/8/82	487	3.2
Citibank Economic Forecast Service, pg 26	12/9/82	500	5.9
Data Resources, Inc., pg 28	12/24/82	464	-1.7
Chase Econometrics, pg 29	12/29/82	470	.4
KEDI, pg 30	1/1/83	476	.8
The Equitable Life Assurance, pg 31	1/5/83	457	-3.2
Standard & Poor's Corporation, pg 34	1/6/83	469	-.6
Morgan Guaranty Trust Company, pg 35	1/7/83	461	-2.3

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3	4		(1)
Currency and demand deposits, M1	bil.$	473.5	490.3	505.2	516.4	519.7	507.9	7.2
Time deposits, adjusted, M2	bil.$	1918.2	2042.6	2095.1	2136.2	2174.1	2112.0	10.1
Consumer instal. credit	bil.$	343.4	342.3	353.0	367.6	377.2	377.2	9.8
Commerc.& indus. loans at banks	bil.$	392.2	397.8	395.9	401.5	403.4	403.4	2.8
Large denomination time dep.	bil.$	319.6	301.6	301.3	311.7	316.4	307.7	-3.7
Mortgages at S&L Assns.	bil.$	482.2	475.7	471.6	481.3	491.2	491.2	1.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	507.9	526.2	532.7	544.2	553.9	539.2	6.2
Time deposits, adjusted, M2	bil.$	2112.0	2235.8	2283.4	2334.5	2382.4	2309.1	9.3
Consumer instal. credit	bil.$	377.2	379.9	388.6	396.9	409.2	409.2	8.5
Commerc.& indus. loans at banks	bil.$	403.4	406.7	410.1	414.5	420.2	420.2	4.2
Large denomination time dep.	bil.$	307.7	318.9	323.5	325.1	327.2	323.7	5.2
Mortgages at S&L Assns.	bil.$	491.2	493.5	498.9	505.7	510.9	510.9	4.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	539.2	559.2	566.4	578.2	585.1	572.2	6.1
Time deposits, adjusted, M2	bil.$	2309.1	2432.5	2484.2	2531.3	2581.5	2498.9	8.1
Consumer instal. credit	bil.$	409.2	411.4	413.8	416.6	425.1	421.1	4.1
Commerc.& indus. loans at banks	bil.$	420.2	423.6	428.1	430.2	433.5	433.5	3.2
Large denomination time dep.	bil.$	323.7	331.2	335.2	338.5	342.4	336.8	4.0
Mortgages at S&L Assns.	bil.$	510.9	511.8	512.6	514.5	515.2	515.2	.8

*Historical data (1) % change over previous year

4.00 THE KENT ECONOMIC FORECASTING SYSTEM

Fulfilling requests received here, KEDI will be publishing a description of the Kent Economic Forecasting System and the System's portions, especially that portion called the Kent Model, used in developing the forecasts.

This and future issues of the Survey will contain a brief description of the Kent Model, its basic characteristics, and the ways it is built into the Kent Economic Forecasting System.

FEATURES OF THE KENT ECONOMIC FORECASTING SYSTEM

The Kent Economic Forecasting System is designed to forecast and simulate economic trends and developments in the United States. The Kent Model is a part of the System. The Kent Model is one of the World's largest models in the field.[1/] It includes more than 43,000 economic indicators across all sectors of the nation's economy. Built into the Model are 22,000 equations in a set which provide the basis for the forecasts.

The Kent Model is comprehensive with indicators for all areas of the U.S. economy including GNP, employment and unemployment, production, wages, costs, prices, commodity markets, profits, interest rates, money, credit, housing, inventories, and many others.

The system has a remarkable record of accuracy. It is ranked among the prominent U.S. forecasters[2/] widely followed by professionals in the field[3/]. The Kent Model has been evaluated as one of the two most advanced forecasting devices in the U.S. based on the theory and design.[4/]

The unique quality of the Kent Model is that it simulates the development of markets of the future[5/6/]. The Model balances thousands of variables and each of them "watch each other." Their forecast values cannot be imbalanced because they constantly play and weigh against each other. Equations used in the Model have been developed by modern advanced methods based on projections and evaluations of future events. Obsolete methods relying on past data are not used.

The Kent Economic Forecasting System enables one to forecast the data for virtually any of the U.S. industries such as coal, steel, construction, real estate, textiles, rubber, food, transportation, banking, insurance, petroleum, mining, electricity, to name a few. It provides an ideal basis for developing

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Treasury bills (3 mo) yield	%	10.20	8.11	8.40	9.14	8.79	8.61	-15.6
Prime rate	%	14.86	10.82	10.50	10.80	11.00	10.78	-27.5
Conventional mortgage rate	%	15.57	13.26	13.16	13.83	13.46	13.42	-13.8
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.49	12.52	12.06	-12.5
20 years Govt. bonds yield	%	12.70	10.87	10.81	11.79	11.86	11.33	-10.8
Standard & Poor's 500 Average	%	119.75	147.94	162.73	165.51	166.94	160.78	34.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.61	8.94	9.14	9.37	9.54	9.25	7.4
Prime rate	%	10.78	11.00	11.00	10.30	10.72	10.88	.9
Conventional mortgage rate	%	13.42	13.31	13.18	13.02	12.84	13.08	-2.6
Aaa corporate bonds rate	%	12.06	12.62	12.67	12.51	12.42	12.55	4.0
20 years Govt. bonds yield	%	11.33	11.94	12.02	11.98	12.06	12.00	5.9
Standard & Poor's 500 Average	%	160.78	164.37	162.14	160.27	164.32	162.77	1.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	9.25	9.61	9.37	9.10	9.42	9.37	1.3
Prime rate	%	10.88	10.50	10.50	10.30	10.44	10.43	-4.1
Conventional mortgage rate	%	13.08	12.96	12.62	12.51	12.38	12.62	-3.5
Aaa corporate bonds rate	%	12.55	12.53	12.71	12.31	12.62	12.56	.0
20 years Govt. bonds yield	%	12.00	12.14	12.26	12.02	12.07	12.12	1.0
Standard & Poor's 500 Average	%	162.77	159.21	162.47	152.32	149.27	155.81	-4.3

*Historical data (1) % change over previous year

custom made forecasting systems for companies, governmental units, and any organization in the business community.

MANAGEMENT

The Kent Model is owned by Dr. Vladimir Simunek. The Kent Economic Forecasting System is managed by the Kent Economic and Development Institute, Inc., (K.E.D.I., Inc.), a consulting and forecasting firm. President of K.E.D.I., Inc. is Dr. Vladimir Simunek. He is also Senior Editor of the Journal of Business Forecasting Methods & Systems, New York, N.Y. The address for K.E.D.I.,Inc. is: P.O. Box 99, Tallmadge, Ohio 44278, U.S.A. Telephone: (216) 673 8249.

QUOTATIONS

K.E.D.I.,Inc. forecasts have been cited in professional journals,newspapers, and other periodicals. For example, regular citations are in: Business Week, Congressional Information Service, International Business Conditions Digest, The Journal of Business Forecasting Methods & Systems, Business Forecasts of the Federal Reserve Bank of Richmond, and others.

Footnotes:

1/ UEBE, G.: SURVEY OF MACRO-ECONOMETRIC MODELS IN CHRONOLOGICAL ORDER. Institut fuer Statistik and Unternehmensforschung. The University of Munich, Germany, 1983

2/ McNees, S.K.: The Recent Record of Thirteen Forecasters. New England Economic Review, September/October 1981, Federal Reserve Bank of Boston, McNees, S.K. and Ries,J.: Accuracy of Forecasts, New England Economic Review, November/December 1983

3/ Rukeyser, L.: Growing Consensus Has Recession Period Near. Syndicated article. Akron Beacon Journal, N.Y.Times, 4/16/79

4/ Migliaro, A.: The Five Econometric Theories Underlying Econometric Models. The Journal of Business Forecasting Methods & Systems, Vol.1, No.5 Fall 1982,pp.10-14

5/ Courbis, R.: Les Modeles de Prix pour la Prevision et Planification. Edition Dunod, Paris, France, 1978, pp. 99-104

6/ Simunek, V.: Prices and Quantities and the Equilibrium of Demand and Supply: A Synthesis of Marshallian and Walrasian Approaches. Paper accepted for presentation at the 27th International Conference on Systems Research. Detroit, Michigan, May 1983

HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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MARCH 1984 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, Inc. Any comments, suggestions or inquiries should be directed to:KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Inc., P.O. Box 99, Tallmadge, Ohio, 44278, U.S.A. Kent Economic and Development Institute,Inc. is not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute, Inc.

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This forecast uses the February, 1984, U.S. Department of Commerce second estimates of 1983:4 National Income and Product data. Also used is the February 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

We are having too much of a good thing. Overheating could lead to a downward spiral of growth and upward spiral of inflation. KEDI expects action by the FED to help curb growth to a more long-lasting pace. REAL GROWTH "Good News" is abundant--too much so. The jump in such areas as housing starts, car sales, durable orders, retail sales, and factory shipments steady increases are seen as in need of some tempering. PRICES The forecast is not changed. Still the increases in prices during January are not seen as a one-shot event. Anticipate gains, but keep in mind the rate for the year is still viewed as moderate--a 4.5 percent increase in the CPI. EMPLOYMENT The additional decline in the jobless rate is part of the forecast that has been maintained here that there will be gradual progress in the job market this year and next year. HOUSING KEDI does not anticipated that the jump in starts recorded in January will be repeated. Mortgage rates and prices of new and "used" homes are too high to keep up with such a level of starts and sales. There will be a cooling. Some demand must remain pent-up as the dream house, new or existing, is beyond the budget of the typical family. AUTOS There is a small revision upward in the forecast here. Still, KEDI ranks on the lower side as compared to others. BUDGETS The time to reduce federal budget deficits is NOW because the recovery has been well established. Calculations show that federal deficits' reductions will be most effective by cutting budgets' outlays. INCOME Gains here will be well above the inflation rate. Corporate profits of office equipment and computers, forest products, electrical equipment and electronics, and aerospace are seen as having the largest gains over 1983. MONEY AND CREDIT KEDI anticipates the Fed will keep to the lower limits of target ranges. Consumer credit will expand quite a bit. INTEREST RATES, YIELDS, AND SECURITY PRICES While long-term rates will go up significantly, short-term rates will be more controlled by the Fed. Look to mortgage rates to move up around 1 percentage point from current levels by the end of the year. The current decline in the stock market is seen as temporary.

1.02 OVERVIEW

A warning is issued here by KEDI. The economy has heated up too much.

OVERVIEW

December was a good month, but coupled with the news in January, lead to the conclusion that a continuation of such rates of activity would cascade into excess pressure. That pressure would limit the recovery severely.

The economy has much less elbow room to expand on a sound basis. By a "sound basis," KEDI means growth with low inflation -- growth in the range above 6 percent and inflation in terms of the CPI toward 8 percent are dangerous.

Basically, the categories that point to overheated expansion are not each by themselves of great concern, but together, their developments point to a much slowed recovery if the trend continued. (News is detailed in the Real Growth section and in specific sections such as Housing, 1.41.) Growth in housing starts, auto sales, industrial production, raw material prices, some shortages, and some slowness in delivery of goods comprise the nucleus of overheating thoughts.

If the Fed does not tighten the policy NOW, trouble will apear by the last half of this year and during 1985. Granted, it is hypothetical that the Dec-Jan performance would be repeated again and again this year.. KEDI does not expect that to happen as long as the Federal Reserve takes action to hold short-term rates down. The recovery can continue with somewhat higher interest rates. The Fed essentially leaving long-term rates alone to go up a bit would be enough to bring back more moderate economic activity.

Up until now, the Administration deserves compliments for their policy. It has reduced inflation, increased employment, and strengthened armed forces.

It is the opinion here that "REAGANOMICS" needs to enter a second stage.

1. Over the next three years, there should be cuts in the federal deficits amounting to $100 billion. KEDI has been proposing that for over two years. Now it is time. The recovery is well established.

2. The Fed has to keep the money supply and short-term interest rates close to current levels,and allow the long-term rates to go up by around 2 percent.

3. The Administration should pay more attention to industries that are still weak despite the overall strengthening. Metallic ores mining, steel, oil exploration, and the machine tool industry come to mind. Some import restrictions could help.

KEDI looks to growth this year of 4.8 percent. It is assumed here that

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national	bil.72$	1485.4	1535.1	1687.9	1748.7
product	% change	-1.9	3.3	2.1	3.6
Index of industrial	1967=100	138.6	147.7	175.0	184.2
production	% change	-9.2	6.6	2.7	8.9
Capacity	%	71.1	75.2	81.2	82.5
utilization	% change	-3.0	5.8	-1.8	1.5
Unemployment	%	9.72	9.58	7.10	6.95
rate	% change	27.6	-1.4	1.9	-2.0
Private housing	mil.units	1.062	1.719	1.696	1.845
starts	% change	-2.0	62.1	-2.9	8.8
Car	mil.units	8.0	9.0	9.8	10.0
sales	% change	-6.5	12.5	-1.0	2.1
Implicit GNP	1972=100	206.9	215.6	247.2	260.1
price deflator	% change	6.0	4.2	4.9	5.2
Consumer price	1967=100	288.6	297.8	340.5	357.5
index	% change	6.0	3.2	4.5	5.0
Producer price index	1967=100	820.7	284.7	333.7	354.4
(Finished goods)	% change	4.0	1.4	5.9	6.2
Federal	bil.$	-147.6	-180.2	-132.9	-105.0
deficit	% change	-136.5	-22.6	-15.1	-21.0
Personal	bil.$	2578.6	2742.1	3359.8	3668.9
income	% change	5.9	6.3	4.0	9.2
Prime	%	14.86	10.78	11.56	10.88
rate	% change	-2.2	-27.5	4.1	-5.9
Mortgage	%	15.57	13.43	13.58	13.39
rate	% change	2.4	-13.7	2.0	-3.3
Currency plus	%	473.5	507.6	605.4	647.2
demand deposits	% change	6.9	7.2	5.5	6.9
Commercial and	%	392.4	409.3	448.4	465.0
industrial loans	% change	9.6	4.3	2.1	3.7

Numbers in "5 change" rows show percent changes over the previous year

OVERVIEW

Fed action will keep it at such a reasonable rate that can be sustained.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no updates took place.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1986 or 1987.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1987 period. In 1984, stabilizing is expected. Some temporary relaxation will take place in 1986.
4. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.
5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.
6. No drastic changes in international relationships are anticipated.

The March 1984 KEDI forecast is highlighted on page 3.

DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

An inch or two of snow fall, say, on Chistmas Eve is viewed by many as quite lovely. An accumulation of 15-20 inches then (or at the end of February) puts a real damper on activity. So it is with the economy. There has been too much good news. A bit of moderation is needed

1. Factory orders for durable goods were up by 1.1 percent in January. The gain would have been 3.7 percent if erratic defense capital goods were not counted. The durable goods category moved ahead by 1.7 percent in December.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*			1983 *		1983	%
			1*	2*	3	4		(1)
Gross national product	bil. 72 $	1485.4	1490.1	1525.1	1553.4	1571.9	1535.1	3.3
Index of industrial production	1967= 100	138.6	138.5	144.5	151.7	156.1	147.7	6.6
Unemployment rate	%	9.7	10.3	10.1	9.4	8.5	9.6	-1.0
Capacity utilization rate	%	71.1	70.7	73.8	77.2	79.2	75.2	5.8
Private housing starts	mil.	1.062	1.694	1.683	1.788	1.712	1.719	62.1
Car sales	mil.	8.0	8.4	8.8	9.3	9.4	9.0	12.5

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1
Gross national product	bil. 72 $	1535.1	1586.1	1602.8	1615.2	1628.3	1608.1	4.8
Index of industrial production	1967= 100	147.7	158.9	161.3	164.9	167.9	163.3	10.5
Unemployment rate	%	9.6	7.8	7.7	7.6	7.2	7.6	-20.5
Capacity utilization rate	%	75.2	80.1	80.9	81.3	82.0	81.1	7.8
Private housing starts	mil.	1.719	1.802	1.921	1.999	1.750	1.868	8.7
Car sales	mil.	9.0	9.9	10.0	9.9	9.8	10.0	11.1

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Gross national product	bil. 72 $	1608.1	1639.5	1650.7	1658.4	1664.2	1653.2	2.8
Index of industrial production	1967= 100	163.3	169.3	171.2	171.6	169.4	170.4	4.3
Unemployment rate	%	7.6	7.0	7.1	6.9	7.0	7.0	-7.7
Capacity utilization rate	%	81.1	82.8	82.9	81.9	81.3	82.2	1.4
Private Housing starts	mil.	1.868	1.683	1.866	1.873	1.565	1.747	-6.5
Car sales	mil.	10.0	9.9	9.9	9.7	9.7	9.8	-.2

*Historical data (1) % change over previous year

REAL GROWTH

2. The Index of Industrial Production rose to 158.1, s.a., from 156.4 in December. The auto industry lead here but most industries did well.

3. Orders for machine tools bounded ahead by 26 percent in January from the December level. They were close to double that of the year-earlier total. However, orders are still 60 percent below totals of just four years ago.

4. Housing starts and permits issued both increased sharply in January. (See Section 1.41.)

5. Auto sales continued to show strength as is detailed in Section 1.42.

6. Capacity utilization gained again--this time to 79.9 percent. That was the best rate in about two years.

7. Retail sales had gained just 0.1 percent in December but escalated ahead by 2.2 percent in January. (Perhaps more and more people wait for the Jan. sales to buy for themselves or for gift giving 11 months away.)

8. Factory shipments continued to improve. They increased to 186.6 billion in December. That was well above the total of roughly $154 billion of December of 1982. Indications point to continued strength in January.

9. New orders increased again in December as did unfilled orders. Seasonally adjusted orders were at $187 billion in December as opposed to $185 billion in the prior month.

10. The vendor-performance indicator records the percentage of companies having slower deliveries of goods on order. It was up to 67 percent early this year as opposed to 41 percent in early 1983. That is a sign that there is less room for expansion to continue.

11. The monthly survey of purchasing agents showed that some are starting to report shortages.

12. The Center for Business Cycle Research noted a 20 percent-plus gain in the past year in their index as concerns price changes in 13 raw materials. In the post-war period, price hikes here have preceeded acceleration in consumer-price gains by about eight months.

13. Despite the current level of joblessness, the percent of working-age people that do have jobs is close to a record high. It is at 60 percent

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3 *	4		(1)
Gross national product	bil. 72 $	1485.4	1490.1	1490.1	1553.4	1571.9	1535.1	3.3
Personal cons. expenditures	bil. 72 $	970.2	986.7	1010.6	1016.2	1030.2	1010.9	4.2
Gross private dom.investment	bil. 72 $	194.5	190.0	210.0	230.7	242.3	218.3	12.2
Net exports	bil. 72 $	28.9	20.5	12.3	11.4	6.3	12.6	-56.3
Federal govt. purchases	bil. 72 $	116.6	118.4	117.6	118.9	117.1	118.0	1.2
State and local purchases	bil. 72 $	175.2	174.5	175.4	176.3	176.1	175.4	.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil. 72 $	1535.1	1586.1	1602.8	1615.2	1628.3	1608.1	4.8
Personal cons. expenditures	bil. 72 $	1010.9	1042.6	1055.2	1058.9	1061.4	1054.5	4.3
Gross private dom.investment	bil. 72 $	218.3	247.1	249.8	251.4	259.6	252.0	15.4
Net exports	bil. 72 $	12.6	-1.2	-2.3	1.1	2.4	.0	--
Federal govt. purchases	bil. 72 $	118.0	118.9	120.1	121.4	122.3	120.7	2.3
State and local purchases	bil. 72 $	175.4	178.7	180.0	182.4	182.6	180.9	3.2

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil. 72 $	1608.1	1639.5	1650.7	1658.4	1664.2	1653.2	2.8
Personal cons. expenditures	bil. 72 $	1054.5	1066.9	1074.5	1079.1	1081.0	1075.4	2.0
Gross private dom.investment	bil. 72 $	252.0	260.5	261.4	260.9	261.3	261.0	3.6
Net **exports**	bil. 72 $	.0	3.9	4.1	3.8	4.2	4.0	--
Federal govt. purchases	bil. 72 $	120.7	123.9	124.8	127.0	128.5	126.1	4.5
State and local purchases	bil. 72 $	180.9	184.3	185.9	187.6	189.2	186.8	8.2

*Historical data (1) % change over previous year

which is well above rates that generally exist. That means there is less room for expansion as the supply of nonworking adults is low for so early in a recovery (The Wall Street Journal, Feb. 17, 1984, page 8.)

All in all, developments show that growth at the end of 1983 and the beginning of 1984 has been too rapid. If it continued, it would mean inflation moving ahead to an 8 percent pace as measured by the CPI.

The scenario as seen by KEDI is that the Federal Reserve will not allow the money supply to grow abruptly this year. Expect them to restrict activity even more in 1985 when it is anticipated that definite steps to curtail Washington's red ink will be taken. Such steps will contribute to slowing (not stopping) growth. KEDI looks to growth in 1985 to be closer to 3 percent assuming cuts in federal deficit totals.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

In January, consumer prices increased 0.6 percent from the December mark. That would be 7.2 percent if it continued all year. KEDI agrees with Joel Popkin that strength in consumer demand is accomodating gains in prices.

Food prices were up 1.6 percent in January. Meats, poultry, fish, and eggs gained 4.1 percent while fruit and vegetable prices showed an increase of 5.3 percent. Grocery prices expanded by 2.4 percent and dairy products by 0.4 percent.

It wasn't only food prices that moved ahead. Housing prices were up 0.5 percent. Medical care rose 0.7 percent, and home heating oil jumped up by 2.3 percent. Renewal of higher rates of inflation are a real concern. Still, KEDI does not look to any substantial hikes in 1984 or 1985. For example, inflation as measured by the CPI is still seen as at a 4.8 percent next year over the current year. As measured by the PPI, the rate is 6.1 percent. (See Table 1.21, Prices)

KEDI does not agree with Donald Ratajczak of Georgia State in his view that the gain in the PPI in January of 0.6 percent (same as the CPI) is not the start of new inflationary pressures. It is not a one-time upward move. KEDI does not see meat prices or fruit or veggie prices going significantly down.

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Consumer price index,n.s.a.	1967=100	288.6	292.5	296.1	299.5	303.3	297.8	3.2
Producer price index,n.s.a.**	1967=100	290.7	283.8	284.1	285.7	285.8	284.7	1.4
Price deflators:								
GNP	1972=100	206.9	212.8	214.5	216.4	218.7	215.6	4.2
Personal cons. expenditures	1972=100	205.3	210.1	212.5	214.7	216.2	213.4	3.9
Gross private dom.investment	1972=100	213.1	212.9	214.1	217.2	218.0	215.6	1.2
Federal purchases	1972=100	221.9	230.0	232.7	233.9	235.4	233.0	5.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1
Consumer price index,n.s.a.	1967=100	297.8	305.9	310.0	311.8	316.7	311.1	4.5
Producer price index,n.s.a.**	1967=100	284.7	290.2	294.3	298.7	304.6	287.0	4.3
Price deflators:								
GNP	1972=100	215.6	220.7	222.9	225.9	228.8	224.6	4.2
Personal cons. expenditures	1972=100	213.4	217.8	219.9	223.6	226.1	221.9	4.0
Gross private dom. investment	1972=100	215.6	219.5	222.8	225.6	228.8	224.2	4.0
Federal purchases	1972=100	233.0	237.3	239.5	242.0	245.5	241.1	3.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	311.1	319.8	322.8	327.6	333.5	325.9	4.8
Producer price index,n.s.a.**	1967=100	297.0	307.8	312.9	317.7	322.5	315.2	6.1
Price deflators:								
GNP	1972=100	224.6	230.9	234.0	236.9	240.8	235.7	4.9
Personal cons. expenditures	1972=100	221.9	228.4	231.5	233.5	236.14	232.5	4.8
Gross private dom. investment	1972=100	224.2	230.2	232.4	235.2	241.1	234.8	4.7
Federal purchases	1972=100	241.1	246.9	248.4	252.9	256.7	251.2	4.2

*Historical data (1) % change over previous year

PRICES

It does see capital equipment prices moving ahead more. Such prices were up 0.1 percent in January, s.a.

Such development has been anticipated for quite some time by KEDI. It only marginally alters the forecast of the rate of inflation this year from the 4.2 percent gain in the CPI forecast in the February issue to the 4.5 percent expansion in 1984 over 1983.

As to oil prices, KEDI assumed for over a year that they would remain flat at $29 per barrel in 1984 and $31 per barrel in 1986. There is no downward trend. The International Energy Agency recently noted that oil demand is forecast as going up 2.4 percent only in 24 of the largest Western nations. There had been a 3 percent drop in 1983.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

KEDI's forecast of nominal GNP shows a 9.1 percent increase this year over 1983 and some slowing down to 7.9 percent in 1985 compared to 1984. Gross private domestic investment is seen as the main upward pushing component of GNP this year--KEDI projects a rise of around 20 percent in business capital outlays and inventories increases. Projection of foreign trade remains bleak. The export-import deficit as measured by the National Income and Product Accounts will quadruple when compared to the last year's deficit.

The 1985 projection shows a more balanced picture. Although the overall economic growth will not be as fast as in 1984, it will be more proportionate: Business capital outlays and inventories buildup will slowdown to approximately 8-9 percent--still a healthy gain but more in line with the expected overall growth of the economy. In 1985 the U.S. balance of foreign trade will improve. It will remain in the red but significantly less than this year due to expected renewal of gains in U.S. exports and slowing down in imports.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast is essentially the same. At last, the Administration is projecting the same rate of unemployment that KEDI has been forecasting: 7.1 percent at the end of 1984. At the end of 1985, the rate is seen as barely moving down as the fourth quarter will average close to 7.0 percent.

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Gross national product	bil.$	3073.0	3171.5	3272.0	3362.2	3437.3	3310.8	7.7
Personal cons. expenditures	bil.$	1991.9	2073.0	2147.0	2181.1	2227.0	2157.0	8.3
Gross private dom. investment	bil.$	414.5	404.1	450.1	501.1	528.2	470.9	13.6
Net exports	bil.$	17.4	17.0	-8.5	-18.3	-18.7	-7.1	--
Federal govt. purchases	bil.$	258.7	273.5	273.7	278.1	275.6	275.2	6.4
State and local purchases	bil.$	390.5	404.0	409.7	420.2	425.3	414.8	6.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3310.8	3500.5	3572.6	3648.7	3725.6	3611.9	9.1
Personal cons. expenditures	bil.$	2157.0	2271.2	2321.1	2367.4	2399.7	2339.9	8.5
Gross private dom. investment	bil.$	470.9	542.4	556.6	567.2	594.0	565.1	20.0
Net exports	bil.$	-7.1	-30.2	-33.9	-28.2	-23.0	-28.8	--
Federal govt. purchases	bil.$	275.2	282.1	287.6	293.8	300.2	290.9	5.7
State and local purchases	bil.$	414.8	435.0	441.2	448.5	454.7	444.9	7.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3611.9	3785.6	3862.6	3928.7	4007.4	3906.1	7.9
Personal cons. expenditures	bil.$	2340.2	2436.6	2488.0	2519.9	2556.0	2500.1	6.8
Gross private dom. investment	bil.$	565.1	599.7	607.5	613.6	629.2	612.5	8.4
Net exports	bil.$	-28.8	-19.8	-16.1	-9.1	-1.3	-11.6	--
Federal govt. purchases	bil.$	290.9	305.9	307.8	321.2	329.9	316.2	8.7
State and local purchases	bil.$	444.9	463.2	475.4	483.1	493.6	478.8	7.6

*Historical data (1) % change over previous year

EMPLOYMENT AND LABOR

Joblessness has fallen faster in this recovery than in prior ones principally because of the less rapid growth of the labor force. The baby-boom generation has already been taken it into the work place. Also, the rate at which women are moving away from being full-time "domestic engineers" has slowed. The size of the labor force was barely changed in January, seasonally adjusted. It amounted to 112.2 million as compared to 112.1 million in December.

The decline in the jobless rate in January to 8 percent does reflect lower growth in the overall size of the labor force. Back in December of 1982, the jobless rate was at 10.7 percent.

The average workweek for manufacturing workers is seen as gradually gaining this year.

Average Workweek for Mfg. Workers in Hours

(Quarterly Averages)

1983:4	35.0
1984:1	35.8
1984:2	36.2
1984:3	36.4
1984:4	36.9

1.41 HOUSING

(Table 1.41 on page 15)

Housing starts surged by 15 percent in January. January starts were at a seasonally adjusted annual rate of 1,915,000 units. That is too high. If it continued, there will more than 2 million units started this year. That would lead to higher mortgage rates, a hefty increase in mortgage credit outstanding, and, ultimately, to an inflationary surge in the money supply.

KEDI does not expect that to continue. The January jump was not the start of a new trend. Why? The average family cannot come up with the money to buy a resale home--much less a new one. For example, The National Association of Realtors found median monthly payments for a buyer of a previously owned house were at $601 in January. That was $9 more than in December. The median price of such a home went up to $71,000 for an increase during the month of $2,000. According their calculations, median family income of $24,844 is not

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	235.1	232.9	1.4
Civilian labor force	mil.	110.2	110.5	111.1	112.0	112.1	111.4	1.1
Employment	mil.	99.5	99.1	100.0	101.8	102.6	100.8	1.0
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	96.1	95.7	96.6	98.5	99.2	97.5	1.0
Unemployment rate	%	9.72	10.34	10.10	9.43	8.46	9.58	-1.4

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.8
Civilian labor force	mil.	111.4	112.8	113.7	114.8	115.9	114.3	4.8
Employment	mil.	100.8	103.9	104.9	106.1	107.6	105.6	7.1
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	97.5	100.6	101.5	102.7	104.2	102.3	7.4
Unemployment rate	%	9.58	7.85	7.70	7.58	7.19	7.58	-20.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.3	117.0	118.0	119.4	120.9	118.8	4.0
Employment	mil.	105.6	108.7	109.8	111.1	112.4	111.5	4.6
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	102.3	105.4	106.5	107.8	109.0	107.2	4.8
Unemployment rate	%	7.58	7.06	6.93	6.98	7.02	7.00	-7.7

*Historical data (1) % change over previous year

enough to finance such a house in terms for qualifying for a mortgage (and having enough left to avoid baked beans on toast for assorted dinners). According to their calculations, with which KEDI concurs, the income would have to be closer to $29,000 to qualify for a house costing almost $72,000.

Existing homes were sold at a 2.99 million pace in January. The December rate was 2.85 million, seasonally adjusted annual rates.

It is the view here that housing starts have to slowdown during the current year. There will be a collision between the intention of builders to build new houses and the intentions of buyers to buy new houses. Expect that to be quite clear in the second half of this year when prices and mortgage payments become even more prohibitive.

1.42 AUTOMOBILES

(Table 1.42 on page 17)

Again, the domestic auto market has somewhat exceeded totals anticipated here in prior issues. The forecast is edged ahead to a 10.0 million level as contrast to 9.9 million foreseen in the last issue. Both production and sales were a tad better in February than had been calculated here. Table 1.42 reflects a slight gain in the forecast for light trucks also. Passenger car and truck production were 63 percent higher this January than in the first month of 1983. Slightly more than 910,000 autos were built.

Sales of new cars were 73 percent higher in mid-February than they were a year earlier. From Feb. 11 though 20, over 225,000 new cars were sold. That translates into an adjusted annual rate of 9.2 million domestic cars. Data show consumer's returning to larger autos. Industry sales reports ranked the Olds Cutlass as the top seller in 1983 with over 331 thousand sold. Still, number two was a small car: the Ford Escort which had total sales of just over 326 thousand.

In terms of projections, KEDI still ranks on the lower side as compared to others. The reason is the strike by the UAW that is seen taking place this fall. Even Ward's Automotive Reports noted that car makers may not be able to build enough cars to hedge against a strike. KEDI does not expect factory shipments to continue at current levels in the second half of the year.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1*	2*	3 *	4		(1)
Single-family housing starts	mil.	.663	1.079	1.104	1.061	1.024	1.067	60.9
Multifamily housing starts	mil.	.399	.615	.579	.727	.688	.652	63.4
Mobile home shipments	mil.	.239	.299	.301	.289	.279	.292	22.8
Permits authorized	mil.	1.000	1.464	1.639	1.647	1.635	1.596	59.6
1-family unit price, new**	tho.$	83.8	86.7	89.1	92.4	93.1	90.3	7.8
1-family unit price, exist.**	tho.$	80.4	80.5	82.6	83.2	83.4	82.4	2.4

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Single-family housing starts	mil	1.067	1.148	1.226	1.241	1.012	1.157	8.4
Multifamily housing starts	mil.	.652	.654	.695	.758	.738	.711	9.0
Mobile home shipments	mil.	.292	.281	.303	.314	.290	.297	.8
Permits authorized	mil.	1.596	1.617	1.744	1.809	1.702	1.718	7.1
1-family unit price, new**	tho.$	90.3	94.9	96.7	99.6	101.3	98.1	8.7
1-family unit price, exist.**	tho.$	82.4	86.5	88.9	91.5	92.2	89.8	9.0

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.157	.994	1.172	1.198	.923	1.072	-7.3
Multifamily housing starts	mil.	.711	.689	.694	.675	.642	.675	-5.1
Mobile home shipments	mil.	.297	.273	.283	.280	.261	.274	-7.7
Permits authorized	mil.	1.718	1.694	1.723	1.641	1.506	1.641	-4.5
1-family unit price, new**	tho.$	98.1	104.4	106.3	107.2	108.5	106.6	8.7
1-family unit price, exist.**	tho.$	89.8	94.0	96.8	98.3	99.7	97.2	8.2

*Historical data (1) % change over previous year

1.50 BUDGETS

(Table 1.50 on page 19)

For two years, KEDI has repeated the view that the time for reducing federal deficits is when recovery is solidly established. THAT TIME IS NOW. As was noted here in the first section, the economy has almost gone too far too fast. Action needs to be taken to see that it continues at a more modest and more long-lasting pace.

KEDI states repeatedly that there is no direct relationship between federal deficits and interest rates. At the time of a recovery the danger of high deficits is that excessive government expenditures create too much additional income--TOO MUCH DEMAND IS CHASING TOO FEW GOODS. That necessarily leads to price increases and rekindling of inflation..

The Administration plan to reduce the federal deficit by $100 billion over three years is supported here. However, the outcome of current efforts in the House and Senate is difficult to predict as it is an election year.

Estimates here show the House Ways and Means Committee's assortment of tax measures designed to cut the deficit by $50 billion plus another $50 billion in government spending will be just what is needed. It is not that $100 is a nice round number, but it happens to be the size of the gap that needs to be closed. KEDI prefers the cuts of all $100 billion at the spending side and leaving taxes unchanged. Calculations show that the $100 billion cut in spending will be much more effective than a tax-spending compromise.

Calculations show that the projected federal deficits will roughly match the $70-80 billion in state and local governments budget surpluses (plus the 20-30 billion financed from overseas) after the federal deficits are gradually slashed by $100 billion. Any further reductions would have recessionary results.

The proposed cutting is seen as a good news. Actual upbeat developments are shown in the fact that the federal deficit dwindled in size just a bit--$9 billion-- in the first four months of fiscal 1984. From October through January receipts were outnumbered by spending to the tune of $68.8 billion whereas that number came to $77.8 billion in the first four months of fiscal 1983. (At least the rate of going into debt slowed down.) Receipts in January came to $62.5 billion while spending amounted to $68.0 billion.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3 *	4		(1)
Passenger cars:								
Total sales	mil.	8.0	8.4	8.8	9.3	9.4	9.0	12.5
Domestic	mil.	5.8	6.0	6.6	6.9	7.1	6.7	15.5
Imported	mil.	2.2	2.4	2.2	2.3	2.3	2.3	4.5
Dealers inventories,n.s.a.	mil.	1.9	1.2	1.3	1.5	1.7	1.5	-21.1
Factory shipments	mil.	5.0	6.0	6.7	7.3	7.2	6.7	34.0
Light-duty truck sales	mil.	2.1	2.1	2.5	2.6	2.8	2.5	19.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.0	9.9	10.0	9.9	9.8	10.0	11.1
Domestic	mil.	6.7	7.5	7.5	7.5	7.2	7.5	11.9
Imported	mil.	2.3	2.4	2.5	2.4	2.6	2.5	8.7
Dealers inventories,n.s.a.	mil.	1.5	1.6	1.5	1.7	1.2	1.6	6.7
Factory shipments	mil.	6.7	7.6	7.7	7.7	7.0	7.5	11.9
Light-duty truck sales	mil.	2.5	2.8	2.9	3.0	2.7	2.9	16.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	10.0	9.9	9.9	9.7	9.7	9.8	-.2
Domestic	mil.	7.5	7.4	7.5	7.3	7.3	7.4	-1.4
Imported	mil.	2.5	2.5	2.4	2.4	2.4	2.4	-3.0
Dealers inventories,n.s.a.	mil.	1.6	1.6	1.7	1.7	1.8	1.7	6.3
Factory shipments	mil.	7.5	7.5	7.4	7.2	7.1	7.1	-1.4
Light-duty truck sales	mil.	2.9	2.3	2.8	3.0	2.8	2.9	.0

*Historical data (1) % change over previous year

BUDGETS

State and local budgets. No essential change took place in projection of state and local budgetary receipts and expenditures when compared to the February data.

1.60 INCOME

(Table 1.60 on page 21)

The forecast remains the same. Personal income is calculated as rising a bit above 9 percent in 1984 over 1983. Look to personal disposable income to go up by more than 8 percent. Average weekly earnings are seen 6.1 percent higher this year than last year. All are well above the anticipated inflation rate in terms of the CPI.

The projection of after-tax corporate profits is at 22 percent. That is a healthy gain over 1983 as the following table shows:

After-tax Profits, % Increase
over 1983 in 1984

Aerospace	25
Autos	21
Building Materials	23
Chemicals	12
Electrical Equipment & Electronics	24
Food	17
Forest Products	25
Office Equipment & Computers	26
Petroleum	8
Retail Trade	18
Rubber	21
Textiles	10
Machine Tools	8
Railroads	17
Utilities	14

Airline and steel will turn away from losses into some measure of profits. Farm equipment, iron ore, and some metallic ores mining will significantly reduce their losses.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Federal government:								
Income taxes	bil.$	304.7	297.7	304.2	286.9	295.0	296.0	-2.9
Corpor.profits tax accruals	bil.$	45.6	48.6	59.8	66.8	73.8	62.3	33.9
Surplus/deficit	bil.$	-147.6	-183.3	-166.1	-188.5	-183.0	-180.2	22.6
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.4	113.3	116.5	110.6	13.5
Corpor.profits tax accruals	bil.$	12.7	12.9	16.2	18.4	19.9	16.9	33.0
Surplus/deficit	bil.$	31.3	40.4	41.0	55.5	57.2	51.2	63.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	296.0	304.7	321.0	335.1	346.2	326.8	10.4
Corpor.profits tax accruals	bil.$	62.3	77.1	80.0	81.9	84.8	81.0	30.0
Surplus/deficit	bil.$	-180.2	-180.2	-175.3	-170.2	-169.6	-173.8	-3.5
State and local governments:								
Income taxes	bil.$	110.6	120.2	122.5	127.0	129.1	124.7	12.8
Corpor.profits tax accruals	bil.$	16.9	21.9	22.1	23.9	24.2	23.0	36.1
Surplus/deficit	bil.$	51.2	60.5	61.9	64.9	67.2	63.6	24.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	326.8	354.0	360.5	362.9	368.1	361.4	10.6
Corpor.profits tax accruals	bil.$	81.0	85.2	86.1	87.2	88.3	86.7	7.1
Surplus/deficit	bil.$	-173.8	-161.3	-159.8	-154.1	-150.7	-156.5	-10.0
State and local governments:								
Income taxes	bil.$	124.7	132.6	133.9	136.3	139.1	135.5	8.6
Corpor.profits tax accruals	bil.$	23.0	26.5	28.4	29.0	30.1	28.5	23.9
Surplus/deficit	bil.$	63.6	70.1	72.8	73.9	75.6	73.1	14.9

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

The KEDI projection of the growth of the money supply, M1, M2, and M3 remains essentially unchanged. There will not be any relaxation in the policy of the Federal Reserve. Actually, they do not have much room for relaxing--or for more tightening. A generally restrictive policy has to be followed.

Calculations show that in 1984, growth of around 6 percent is consistent with sound recovery in the 4.5-5.0 percent range of growth in real GNP and around 9 percent in terms of growth in nominal GNP. The Fed's targets have been set: 4-8 percent for the first half of 1984 and 5-9 percent for the second half. _If_ the Fed would let M1 grow by as much as 8-9 percent, that would mean inflation going up to 7-8 percent.

KEDI anticipates the policy of the Fed will be to keep M1 growth at the lower end of those targets. M2 is expected to grow by 9 percent in the first half of the year and to accelerate in the second half. Again, that is consistent with 4.5-5.0 percent growth in real GNP.

Compared to prior issues of this Survey, projection of the other monetary and credit aggregates remain the same. That is, look for a strong surge in _consumer installment credit_ as loans are taken out for new automobiles and other durables. Expect 1984 to reflect a slightly faster rate of gain in _commercial and industrial loans_ than in 1983. _Mortgage loans_ will show a hefty increase.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The assumption here is that the Federal Reserve will concentrate on not allowing short-term rates to go up very much this year. They will be gaining, but not significantly.

KEDI does _not_ agree with Henry Kaufman of Salomon Brothers in his view that interest rates on federal funds will go up to about 11 percent by the end of this year from the recent 9.5 plateau. It will not go that high. Expect the rate to be closer to 10 percent.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1*	2*	3*	4		(1)
Personal income	bil.$	2578.6	2657.7	2713.6	2761.9	2835.3	2742.1	6.3
Personal disposable income	bil.$	2176.5	2255.9	2301.0	2361.7	2424.0	2335.7	7.3
Compensation of employees	bil.$	1865.7	1923.7	1968.7	2011.9	2056.8	1990.2	6.7
Corporate after tax profits	bil.$	115.1	108.2	127.2	141.9	148.0	131.3	14.1
Personal saving	bil.$	125.4	121.7	91.5	115.8	129.9	113.2	-9.8
Average weekly earnings	$	330.1	342.3	351.5	356.8	360.0	352.7	6.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2742.1	2905.0	2964.9	3036.3	3089.5	2998.9	9.3
Personal disposable income	bil.$	2335.7	2470.1	2521.4	2574.2	2614.2	2544.9	8.9
Compensation of employees	bil.$	1990.2	2100.8	2130.3	2171.6	2231.4	2158.5	8.5
Corporate after tax profits	bil.$	131.3	154.7	158.3	162.9	167.1	160.8	22.4
Personal saving	bil.$	113.2	130.8	131.2	136.3	142.7	135.3	19.5
Average weekly earnings	$	352.7	364.0	370.5	377.2	385.2	374.2	6.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	2998.9	3148.7	3215.8	3257.1	3300.8	3230.6	7.7
Personal disposable income	bil.$	2544.9	2662.1	2721.4	2757.9	2793.6	2733.8	7.4
Compensation of employees	bil.$	2158.5	2267.9	2296.9	2338.7	2359.8	2315.8	7.3
Corporate after tax profits	bil.$	160.8	174.8	177.9	178.6	179.0	177.6	10.4
Personal saving	bil.$	135.3	152.4	158.9	162.3	160.7	158.6	17.2
Average weekly earnings	$	374.2	389.1	396.5	401.3	407.6	398.6	6.5

*Historical data (1) % change over previous year

INTEREST RATES

On the other hand, do not be surprised at the increases in some long-term rates this year. KEDI anticipates the yield on 20-year Government bonds to go from the present 11 percent up to close to 13 percent by the end of the year.

Conventional mortgage rates will gain but not as much as bond rates. Look to a mortgage rate of 13.4 percent by the end of the year as compared to the current conventional rate of 12.65.

The current decline in the stock market is seen as temporary. KEDI does not expect any further significant declines. The outlook here is for a fairly stable performance at close to the present levels of the Dow Jones and the Standard & Poor's 500 Average during the first half of this year. Gradual increases are foreseen in the last half of 1984. The January levels of both indexes will be reached about the time fall nips the air.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, State and Local Governments Purchases of Goods and Services in current dollars in 1983 has been selected for comparison. The actual figure is the U.S. Department of Commerce February 20, 1984 estimate. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(State and Local Governments Purchases of Goods and Services, 1983, bil.$)

Actual figure: 414.9

Forecaster (and page in source)	Date of Forecast	Forecast	% of Accuracy
Albert T. Sommers, The Conference Board, pg8	11/17/82	401.0	-3.4
National Research and Securities Corp., pg8	11/18/82	412.0	-0.7
Calvin C. Myers, The Merchants National Bank of Aurora, pg 10	12/82	412.0	-0.7
U.S. Trust Company of New York, pg10	12/82	411.0	-1.0
Walter D. Fackler, University of Chicago, pg12	12/8/82	415.0	.0
United Business Service, pg12	12/13/82	410.0	-1.2
Georgia State University, pg17	11/82	416.8	.2
Manufacturers Hanover Trust, pg22	12/82	411.2	-1.0
UCLA, pg23	12/82	412.8	-0.5
Metropolitan Life Insurance Company, pg24	12/1/82	412.1	-0.7
The Fidelity Bank, pg25	12/8/82	422.5	1.8
Citibank Economic Forecast Service, pg26	12/9/82	413.6	-0.4
Data Resources, Inc., pg28	12/24/82	409.7	-1.3
Chase Econometrics, pg29	12/29/82	412.2	-0.7

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures;other data are end of period figures)

Indicator	Unit	1982*	1983 1*	 2*	 3*	 4	1983	% (1)
Currency and demand deposits,M1	bil.$	473.5	490.3	505.2	516.4	518.4	507.6	7.2
Time deposits, adjusted, M2	bil.$	1918.2	2042.6	2095.1	2136.2	2175.7	2112.4	10.1
Consumer instal. credit	bil.$	344.8	342.3	353.0	367.6	378.6	378.6	9.8
Commerc.& indus. loans at banks	bil.$	392.4	397.8	395.9	402.6	409.3	409.3	4.3
Large denomination time dep.	bil.$	319.6	301.6	301.3	312.5	325.6	310.3	-2.9
Mortgages at S&L Assns.	bil.$	482.2	475.7	471.6	481.3	492.3	492.3	2.1

Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Currency and demand deposits,M1	bil.$	507.6	528.9	534.6	545.9	555.3	541.2	6.6
Time deposits, adjusted, M2	bil.$	2112.4	2236.3	2285.7	2335.7	2384.9	2310.7	9.4
Consumer instal. credit	bil.$	378.6	383.2	390.4	398.9	411.8	411.8	8.8
Commerc. & indus. loans at banks	bil.$	409.3	412.6	416.3	419.7	426.6	426.6	4.2
Large denomination time dep.	bil.$	310.3	321.5	326.2	328.7	331.4	331.4	6.8
Mortgages at S&L Assns.	bil.$	492.3	497.4	501.6	508.3	513.8	513.8	4.4

Indicator	Unit	1984	1985 1	 2	 3	 4	1985	% (1)
Currency and demand deposits,M1	bil.$	541.2	561.3	568.9	579.4	585.9	573.9	6.0
Time deposits, adjusted, M2	bil.$	2310.7	2434.6	2486.5	2533.4	2583.7	2509.6	8.6
Consumer instal. credit	bil.$	411.8	414.6	415.9	418.7	426.3	426.3	3.5
Commerc.& indus. loans at banks	bil.$	426.6	428.9	434.6	436.9	439.2	439.2	3.0
Large denomination time dep.	bil.$	331.4	334.3	337.8	340.2	346.8	339.8	2.5
Mortgages at S&L Assns.	bil.$	513.8	514.9	516.3	519.2	520.4	520.4	1.3

*Historical data (1) % change over previous year

COMPARISONS OF ACCURACY OF PREDICTIONS

Table 2.00 Contnd. from page 22

Forecaster(and page in source)	Date of Forecast	Forecast	% of Accuracy
KEDI, pg 30	1/1/83	419.5	1.0
The Equitable Life Assurance, pg 31	1/5/83	411.2	-1.0
Standard & Poor's Corporation, pg 34	1/6/83	411.2	-1.0
Morgan Guaranty Trust Company, pg 35	1/7/83	412.4	-0.6

4.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

The February issue of this Survey contains the description of general features of the Kent Economic Forecasting System and the Kent Model.

This issue contains technical data of the Kent Model.

4.10 Three Components of the Kent Model

Like any other economic model, the Kent Model consists of three components:

(a) A Set of Equations
(b) Data Base, and
(c) Forecaster's Judgement

The first two components--a set of equations and a data base form the mechanical part of the model, and the third component is a judgemental part. All three components are necessary in each model. No valid economic model can exist without its judgemental component because it is the forecaster's knowledge and insight and his "fine tuning" of forecast data that produce the final forecast. Corrent U.S. economic models are 40-60 percent judgemental and some of them are purely judgemental with a very small contribution of mechanical components as evidenced, for example, by McNees (1981). The Nobel Prize laureate, professor Lawrence Klein of the University of Pennsylvania (1981) has expressed very clearly that he prefers the judgemental models compared to the mechanical ones. Only naive or inexperienced persons not knowledgeable in recent developments view an economic model as a set of equations and a data base.

4.11 The Kent Model's Set of Equations

The Kent Model's equations are designed to represent all areas of the U.S. economy. More specifically, they represent all major flows of commodities, incomes, money, credit, labor and other services of factors of production. Variables that enter these equations are ordered into three divisions:

(a) The Interindustry Division - 42,236 variables
(b) The Aggregative Division - 1,184 variables
(c) The Financial Division - 515 variables

Total.......43.935 variables

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	% (1)
			1*	2*	3 *	4		
Treasury bills (3 mo) yield	%	10.20	8.11	8.40	9.14	8.80	8.61	-15.6
Prime rate	%	14.86	10.82	10.50	10.80	11.00	10.78	-27.5
Conventional mortgage rate	%	15.57	13.26	13.16	13.83	13.47	13.43	-13.7
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.49	12.41	12.04	-12.6
20 years Govt. bonds yield	%	12.70	10.87	10.81	11.79	11.90	11.34	-10.8
Standard & Poor's 500 Average	%	119.75	147.94	162.73	165.51	165.75	160.48	34.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	8.61	9.09	9.62	9.78	9.93	9.61	11.6
Prime rate	%	10.78	11.00	11.00	11.00	10.83	10.96	1.7
Conventional mortgage rate	%	13.43	13.56	13.62	13.54	13.47	13.55	.9
Aaa corporate bonds rate	%	12.04	12.61	12.69	12.83	12.80	12.73	5.8
20 years Govt. bonds yield	%	11.34	12.01	12.09	12.14	12.32	12.14	7.1
Standard & Poor's 500 Average	%	160.48	161.42	160.16	161.58	163.41	161.64	.7

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	9.61	10.08	10.46	10.83	10.72	10.52	9.5
Prime rate	%	10.96	11.00	11.14	11.23	11.08	11.11	1.4
Conventional mortgage rate	%	13.55	13.56	13.67	13.83	13.24	13.58	.2
Aaa corporate bonds rate	%	12.73	12.92	12.89	12.78	12.85	12.86	1.0
20 years Govt. bonds yield	%	12.14	12.45	12.67	12.86	13.02	12.75	5.0
Standard & Poor's 500 Average	%	161.64	158.24	159.36	152.41	148.11	154.53	-4.3

*Historical data (1) % change over previous year

THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

The Interindustry Division uses the 83 x 83 matrices of technical coefficients. The classification by industries corresponds with that used by the U.S. Department of Commerce Interindustry Tables:

INDUSTRY GROUP	NUMBER OF INDUSTRIES
AGRICULTURE, FORESTRY, AND FISHERIES	4
MINING	6
CONSTRUCTION	2
MANUFACTURING	51
TRANSPORTATION, COMMUNICATION, AND UTILITIES	4
WHOLESALE AND RETAIL TRADE	1
FINANCE, INSURANCE, AND REAL ESTATE	2
SERVICES	6
GOVERNMENT ENTERPRISES	2
DUMMY AND SPECIAL INDUSTRIES	5
TOTAL	83

The Aggregative Division corresponds with main sections of the U.S. Department of Commerce National Income and Product Accounts:

NATIONAL INCOME AND PRODUCT ACCOUNT

- NATIONAL PRODUCT AND INCOME
- PERSONAL INCOME AND OUTLAYS
- GOVERNMENT RECEIPT AND EXPENDITURES
- FOREIGN TRANSACTIONS
- SAVING AND INVESTMENT
- IMPLICIT PRICE DEFLATORS AND PRICE INDEXES
- SUPPLEMENTARY DATA

The Financial Division represents the U.S. Flow of Funds Tables. Its market and sectoral classification corresponds with that used in the Flow of Funds materials of the Board of Governors of the Federal Reserve System:

FINANCIAL SECTORS	NUMBER OF SUBSECTORS
HOUSEHOLDS	1
BUSINESS	3
U.S. GOVERNMENT	3
STATE AND LOCAL GOVERNMENTS	2
COMMERCIAL BANKING	4
PRIVATE NONBANK FINANCE	12
TOTAL	25

Forecast data are calculated for 42 financial markets.

(Continued in the next issue)

Klein, Lawrence, R.: Econometric Models as Guides for Decision-Making. The Free Press, Macmillan Publishing Company, Inc., New York, N.Y., 1981, pp.38-40

McNees, Stephen: The Recent Record of Thirteen Forecasters. New England Economic Review, Federal Reserve Bank of Boston. September/October 1981, pp.6,7

5.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 5.00 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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President: Dr. Vladimir J. Simunek

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This forecast uses the March, 1984, U.S. Department of Commerce third estimates of 1983:4 National Income and Product data. Also used is the March 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

0.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

0.01 EXECUTIVE SUMMARY

Expansion has continued to be too rapid for it to last. Tightening Fed policy and reducing federal government spending will make recovery longer lasting. REAL GROWTH (Some people are never satisfied.) Truthfully, it is good news that recovery is well established, but it will run out of steam if the pace is not slowed. KEDI sees it as slowing in coming months. Data except for durable orders were positive this month, and durable orders are seen as climing again. PRICES The rate of inflation as measured by the CPI is set now at 5.1 percent for this year over 1983. EMPLOYMENT AND LABOR Joblessness will move down rather steadily to close to 7 percent at the end of this year. HOUSING The forecast is revised upward. Total single-family starts for this year are set at 1.190 million -- a gain of 11.4 percent. AUTOS The forecast is not altered. Look for total car sales of 10 million this year. BUDGETS Federal government deficit cuts of roughly $100 billion over the next three years will be adequate. Enough funds are available in other sectors to finance business expansion and allow for red-ink totals in Washington. INCOME Due to the faster-than-expected pace of growth in the first part of this year, the forecast here is somewhat raised. Gains in personal income this year and next year will exceed rates of inflation. MONEY AND CREDIT Tightening here has been in order. A slowing in the rate of expension of M1, commercial loans, and consumer credit is expected. INTEREST RATES, YIELDS, AND SECURITIES PRICES The forecast of interest rates and yields is increased here. Forecast data of stock market indexes show a temporary decline in the first months of 1985. Bonds markets are getting more attractive for investors.

0.02 OVERVIEW

The economy has been moving too far at too fast a speed. Overheating is still a concern. KEDI pointed this out in the Survey dated March 1, 1984. That was prior to publication of most other expressions of concern.

Recently released data continue to confirm that expansion is a bit too rapid. (See Section 1.10, Real Growth) It is not that KEDI falls in the category of never being satisfied. The strength is welcomed. Good news in abundance is better than downturns. However, in order for growth to continue, a bit of

OVERVIEW

pacing is needed.

Demand for housing and autos has been getting quite brisk, and retail sales remained strong. Some industries were getting close to capacity limits such as microchips, paper, rubber, and textile industries.

KEDI agrees with those that recently expressed the view that we have excessive consumer demand. Inflationary pressure could get excessive if overheating continued. As was stated last month, KEDI expects that the Fed will tighten its policy. Simply leaving long-term rates on their own to go up would be a step to help bring growth back to more sustainable levels. It was reported in late March that it was highly likely that the Fed did tighten credit early in March.

In the present situation of excess demand, another step is needed and that is to reduce the excess demand by REDUCING FEDERAL OUTLAYS! Calculations and analyses by this Institute show that the most efficient remedy will be to cut budgetary outlays and to leave taxes and tax rates unchanged. (Old financial wisdom says: New tax is a bad tax, old tax is a good tax.) Cutting federal budgetary outlays will reduce the excess demand at its source -- additional demand will not be generated any more. Tax increases will not help too much: increases in corporate taxation will sooner or later end up in higher prices and increases in taxation of income will reduce saving and create an upward pressure on the demand for credit. As a result the excess demand will reappear at another side of the economy. KEDI agrees with and supports the plans to reduce federal deficits in the following years by approximately $100 billion. Respecting political reality, it agrees with some selected tax increases aimed to reduce federal deficits. However, this Institute maintains its position that the $100 billion cuts if done at the outlays side will be significantly more efficient and beneficial for the economy than a contemplated mix of higher taxation and lower budgets.

It is the position of this Institute that Reaganomics should enter the second stage. It deserves credit for helping bring recovery, low inflation, reduced interest rates, and increases in employment in the private sector. (Four million jobs were created in the last year -- the vast majority, 99 percent in private industries.) Now it is time to bring the economy into balance: to secure a long lasting growth, low inflation and continuous declines

KEDI FORECAST HIGHLIGHTS

TABLE 0.00

Indicator	Unit	1983	1984	1986	1987
Gross national	bil.72$	1535.3	1615.9	1694.1	1755.1
product	% change	3.3	5.3	2.1	3.6
Index of industrial	1967=100	147.7	161.0	173.1	183.0
production	% change	6.6	9.0	2.5	5.7
Capacity	%	75.2	80.9	80.7	82.0
utilization	% change	5.8	7.6	-1.6	1.5
Unemployment	%	9.58	7.55	7.17	6.92
rate	% change	-1.4	-21.2	2.0	-3.5
Private housing	mil.units	1.719	1.864	1.581	1.721
starts	% change	62.1	8.4	-7.5	8.9
Car	mil.units	9.0	10.0	9.5	9.8
sales	% change	12.5	11.1	-1.0	3.6
Implicit GNP	1972=100	215.6	226.4	251.3	265.6
price deflator	% change	4.2	5.0	5.9	5.7
Consumer price	1967=100	297.8	313.1	349.3	367.5
index	% change	3.2	5.1	5.6	5.2
Producer price index	1967=100	284.7	300.2	341.1	363.3
(Finished goods)	% change	1.4	5.4	6.2	6.5
Federal	bil.$	-180.2	-177.6	-146.6	-135.6
deficit	% change	22.6	-2.2	-8.3	-8.1
Personal	bil.$	2335.6	2590.2	3566.9	3884.3
income	% change	7.3	10.9	7.6	8.9
Prime	%	10.78	11.60	11.26	11.80
rate	% change	-27.5	7.6	-1.0	-4.8
Mortgage	%	13.43	13.79	13.62	13.23
rate	% change	-13.7	2.7	-1.3	-2.9
Currency plus	%	507.7	543.5	608.3	649.1
demand deposits	% change	7.2	7.0	5.5	6.7
Commercial and	%	409.3	428.9	460.3	477.8
industrial loans	% change	4.3	3.8	3.0	3.8

Numbers in "% change" rows show percent changes over the previous year

in unemployment. Analysis shows that the first step in this direction is to adopt and implement a definite plan of reductions in federal deficits.

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no updates took place.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions, including a significant increase of oil exports, will take place not earlier than in 1986 or 1987.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1987 period. In 1984, stabilizing is expected. Some temporary relaxation will take place in 1986.

4. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.

6. No drastic changes in international relationships are anticipated.

0.04 FORECAST HIGHLIGHTS

Table 0.01 on page 3 shows forecast data of selected key indicators of the April 1984 KEDI forecast. Compared to the last month's forecast the real GNP, Index of Industrial Production, and Private Housing starts data have been slightly increased for years 1987 and 1988. Data for income, prices, and financial data has also been increased a bit. Data for the unemployment rate has been lowered insignificantly.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1535.3	1598.9	1612.4	1621.7	1630.7	1615.9	5.3
Index of industrial production	1967=100	147.7	159.1	163.5	164.2	166.2	161.0	9.0
Unemployment rate	%	9.6	7.8	7.7	7.6	7.1	7.6	-20.5
Capacity utilization rate	%	75.2	80.1	81.0	81.0	81.6	80.9	7.6
Private housing starts	mil.	1.719	1.935	1.947	1.811	1.765	1.864	8.4
Car sales	mil.	9.0	9.9	10.0	9.9	9.8	10.0	11.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1615.9	1645.7	1656.4	1664.3	1673.1	1659.9	2.7
Index of industrial production	1967=100	161.0	166.5	168.4	169.8	170.5	168.8	4.8
Unemployment rate	%	7.6	7.1	7.0	7.0	7.1	7.1	-7.2
Capacity utilization rate	%	80.9	32.3	32.6	81.8	81.4	82.0	1.4
Private housing starts	mil.	1.864	1.669	1.844	1.776	1.553	1.710	-8.3
Car sales	mil.	10.0	9.9	9.9	9.7	9.7	9.8	-.2

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1659.9	1680.9	1688.4	1697.8	1709.4	1694.1	2.1
Index of industrial production	1967=100	168.8	171.2	171.5	173.2	176.4	173.1	2.5
Unemployment rate	%	7.1	7.2	7.2	7.2	7.1	7.2	-1.1
Capacity utilization rate	%	82.0	80.6	80.1	80.4	81.6	80.7	-1.6
Private housing starts	mil.	1.710	1.623	1.911	2.006	1.789	1.581	-7.5
Car sales	mil.	9.8	9.5	9.7	9.6	9.3	9.5	-1.0

*Historical data (1) % change over previous year

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The March issue pointed out there has been too much good news in too short a time. This continues. "Up, Up, and Away" can lead to an exploded baloon. All KEDI is pointing out is that a bit of government action can slow the pace and help assure that recovery goes on beyond this year. There has been a parade of robust figures.

1. Industrial production gained by 1.2 percent in February. It reached 159.9 percent of the 1967 average.

2. In January, building awards were up by 12 percent from the December total, s.a. Construction contracts rose to $14.2 billion in February from the level of $13.8 in January. Although small, the 3 percent gain in industrial plant construction in January was encouraging as this area was quite weak last year. Also, later this year, Congress is to release $5 billion for government construction for highway and bridge repairs. The money will come from the gasoline tax of 5 cents per gallon that has been socked away since last fall.

3. Leading economic indicators went up to 164.7 percent of the 1967 average in January. The revised figure from the prior month was 162.9.

4. Machine tool orders continue to show recovery. In February, they gained 7 percent over January. Orders this February were 107 percent higher than a year earlier.

5. In January, consumer credit remained strong. It reached a seasonally adjusted $4.43 billion

6. Strength in housing and cars is detailed in Sections 1.41 and 1.42 of this issue.

7. The flash estimate of first quarter 1984 GNP showed it bounding ahead at a 7.2 percent rate. KEDI shares the view of Michael Evans, a Washington economic consultant, that this a sign of overheating.

8. The decline of 1.2 percent in durable orders in February is seen here as temporary. Look for such orders to go up again. Actually, one major segment

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1535.3	1598.9	1612.4	1621.7	1630.7	1615.9	5.3
Personal cons. expenditures	bil. 72$	1011.4	1052.9	1054.9	1054.6	1064.1	1056.6	4.5
Gross private dom.investment	bil. 72$	219.0	250.4	258.2	264.0	261.2	258.5	18.0
Net exports	bil. 72$	11.8	-.2	.9	1.0	1.2	0.7	--
Federal govt. purchases	bil. 72$	117.8	118.0	119.6	120.9	121.8	120.1	2.0
State and local purchases	bil. 72$	175.3	177.8	178.8	181.2	182.4	180.1	2.7

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1615.9	1645.7	1656.4	1664.3	1673.1	1659.9	2.7
Personal cons. expenditures	bil. 72$	1056.6	1074.6	1072.7	1075.7	1089.2	1078.1	2.0
Gross private dom.investment	bil. 72$	258.5	260.2	269.8	271.5	264.5	266.5	3.1
Net exports	bil. 72$	0.7	3.7	4.0	3.4	2.8	3.5	--
Federal govt. purchases	bil. 72$	120.1	123.0	124.1	126.3	127.9	125.3	4.4
State and local purchases	bil. 72$	180.1	184.2	185.8	187.4	188.7	186.5	3.6

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1659.9	1680.9	1688.4	1697.8	1709.4	1694.1	2.1
Personal cons. expenditures	bil. 72$	1078.1	1091.4	1090.6	1091.9	1106.0	1095.0	1.6
Gross private dom.investment	bil. 72$	266.5	267.1	272.0	275.0	268.5	270.7	1.56
Net exports	bil. 72$	3.5	3.4	3.7	5.3	5.4	4.5	27.1
Federal govt. purchases	bil. 72$	125.3	128.8	129.3	130.7	133.4	130.6	4.2
State and local purchases	bil. 72$	186.5	190.2	192.8	194.9	196.1	193.5	3.7

*Historical data (1) % change over previous year

did continue on the upward track. That was nondefense capital-goods orders. In each of the first two months of this year, they increased by 1.7 percent.

9. Inventories were up by 0.4 percent in January. More and more warehouses reached above 80 percent capacity. A year ago, just one-half of warehouses were at that level. In February, 66 percent reported they were 80 percent or more full.

10. According to purchase managers, expansion continued in February with stocks expanding rapidly. Over twice as many reported higher employment than declines here. As to prices, 43 percent surveyed reported they were up.

11. Major retailers has sales this February that were from about 7-30 percent higher than a year ago.

Early estimates indicate that the January-February rates of growth had been continuing in March. Forecast data in Tables 1.11 and 1.12 show some slowing down in the second quarter.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast here is revised upward, again. KEDI had not anticipated the eocnomy would go forward quite so strongly. Forces generated by the overheating are seen as leading to more inflation. In particular, food, housing, and services prices rate of increase are projected to be higher now than they were in prior issues.

In the last issue the change this year in the CPI was set at 4.5 percent. That annual inflation rate is now calculated at 5.1 percent. KEDI is not as pessimistic as the Center for International Business Cycle Research which sets the rate close to 8 percent by the end of this year. For that time, figures here show a rate of 6.5 percent. Jack Lavery, chief economist for Merrill Lynch & Co., anticipates an inflation rate of 6 percent by the end of the year. That is closer to the forecast of this Institute. Mr. Biggs of Morgan Stanley looks to annual inflation of 8 percent in this recovery. J.C. Morrison,

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	297.8	306.7	310.2	315.4	319.9	313.1	5.1
Producer price index,s.s.a.**	1967=100	284.7	291.5	297.8	302.6	308.9	300.2	5.4
Price deflators:								
GNP	1972=100	215.6	221.8	224.0	227.3	232.5	226.4	5.0
Personal cons. expenditures	1972=100	213.3	219.4	222.0	225.5	230.0	224.2	5.1
Gross private dom. investment	1972=100	215.4	219.2	222.9	226.0	228.9	224.3	4.1
Federal purchases	1972=100	233.2	237.5	239.7	241.1	245.8	241.3	3.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	313.1	324.5	328.7	332.4	337.1	330.7	5.6
Producer price index,n.s.a.	1967=100	300.2	313.6	317.1	323.8	329.7	321.1	6.9
Price deflators:								
GNP	1972=100	226.4	233.7	235.4	239.0	243.1	237.8	6.1
Personal cons. expenditures	1972=100	224.2	231.9	233.1	237.0	239.4	235.4	5.1
Gross private dom. investment	1972=100	224.3	230.5	233.0	236.8	244.2	236.1	5.3
Federal purchases	1972=100	241.3	248.3	248.9	253.1	257.0	251.6	4.3

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Consumer price index,n.s.a	1967=100	330.7	342.2	346.8	351.4	356.8	349.3	5.6
Producer price index,n.s.a.**	1967=100	321.1	334.5	338.4	343.1	348.2	341.1	6.2
Price deflators:								
GNP	1972=100	237.8	244.0	247.9	253.8	259.3	251.3	5.9
Personal cons. expenditures	1972=100	235.4	242.1	245.0	254.1	260.1	250.6	6.5
Gross private dom. investment	1972=100	236.1	246.7	248.9	250.1	260.3	251.5	6.6
Federal purchases	1972=100	251.6	261.4	262.7	263.3	264.4	262.2	4.6

*Historical data (1) % change over previous year

metals analyst at Dean Witter Reynolds, revised his inflation estimate up to 7 percent from 6 percent for this year. Again, that is seen as on the high side here.

The outlook for the PPI has also been revised upward. In particular, strong demand for paper and pulp, for instance, have contributed to the revision. Other products that will experience prices higher than had been expected earlier are rubber (especially tires); raw materials and metals (especially aluminum, zinc, and lead); and agricultural products -- especially feedstock and wheat.

In February, consumer prices were up by 0.4 percent. That was less than the January rate of 0.6 percent. If the rate in both months were sustained for the rest of the year, the annual inflation would be 6.1 percent. It won't be that high. Actions taken by the Fed are seen here as keeping the rate below 6 percent.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

The 10.5 percent increase in nominal GNP projected for this year is slightly above the Administration's 9.5 percent rate--KEDI expects the real GNP and prices to grow faster than the Administration anticipates.

In 1984 and 1985 Gross Private Domestic Investment will be the fastest growing component. The main share will be taken by business outlays on plant and equipment by the housing industry, and by public outlays on maintenance, repair and construction of roads and bridges. The share of business outlays on structures and inventories changes will remain relatively small. For 1985 and 1986, the projection shows a somewhat different picture. Outlays on residential construction will remain flat with some possible declines in 1986, and a larger share will be taken by inventories' increases due to the expected slowing down of consumer and business demand.

Foreign trade will remain in the red for the entire 1984-1986 period. Negative net exports as measured by the National Income and Product Accounts will be declining gradually from an expected $29 billion in 1984 to $13.8 billion

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3310.5	3546.4	3611.8	3686.1	3791.4	3658.9	10.5
Personal cons. expenditures	bil.$	2158.0	2310.4	2341.4	2377.6	2460.7	2372.5	9.9
Gross private dom. investment	bil.$	471.9	548.9	575.5	596.6	597.9	579.7	22.8
Net exports	bil.$	-9.0	-29.4	-34.2	-29.8	-23.4	-29.2	--
Federal govt. purchases	bil.$	274.8	280.3	286.7	292.7	299.4	289.8	5.4
State and local purchases	bil.$	414.7	436.2	442.4	449.0	456.8	446.1	7.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3658.9	3846.0	3899.2	3977.7	4067.3	3947.6	7.9
Personal cons. expenditures	bil.$	2372.5	2492.1	2500.1	2548.9	2607.4	2537.1	16.9
Gross private dom. investment	bil.$	597.7	599.8	628.6	642.9	645.9	629.3	8.6
Net exports	bil.$	-29.2	-19.2	-16.5	-19.0	-10.8	-16.4	--
Federal govt. purchases	bil.$	289.8	304.2	308.9	319.7	328.7	315.4	8.8
State and local purchases	bil.$	446.1	469.1	478.2	485.2	496.1	482.2	8.1

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Gross national product	bil.$	3947.6	4110.9	4185.9	4309.6	4433.2	4259.9	7.9
Personal cons. expenditures	bil.$	2537.1	2642.3	2682.9	2774.5	2876.7	2744.1	8.1
Gross private dom. investment	bil.$	629.3	658.9	677.0	687.8	698.8	680.6	8.2
Net exports	bil.$	-16.4	-20.3	-16.3	-6.1	-12.7	-13.8	--
Federal govt. purchases	bil.$	315.4	332.8	335.8	340.2	350.0	339.7	7.7
State and local purchases	bil.$	482.2	497.2	506.5	503.2	520.4	509.3	5.6

*Historical data (1) % change over previous year

NOMINAL GNP

in 1986. Comparison of real and nominal exports and imports shows that improvements in the U.S. trade balance will proceed gradually and a more acceptabl export-import relationship will not be achieved earlier than in 1986. Exports are expected to go up more significantly at that time.

A comparison of projected growth rates of main components of GNP in real and nominal terms for 1984 - 1988 indicates that the U.S. economy will return to a more balanced growth pattern in 1986.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast is not essentially changed. The jobless rate will decline over 20 percent this year and reach an average of close to 7.1 percent in the last quarter of this year. Anticipate that it will edge down to a 6.9-7.0 percent by the end of 1985. During 1986, the rate is seen as being essentially flat. In the following year, KEDI expects that it will move down a bit more to 6.8 percent.

Employment reached a record high of 102,800,000 million in 1983. Compared to previous years, the year 1983 had the largest one-year jump in employment in the U.S. history. The forecast shows that in 1984,2 more million persons will be employed and in 1985 the number of employed persons will grow by an additional 2 million.

1.41 HOUSING

(Table 1.41 on page 15)

The forecast is slightly changed for 1984. (See Table 1.41) Housing starts were up more in February than had been expected here. Such starts leaped ahead by 11.2 percent in February to the highest level in almost six years. Building permits issued were up by 6.8 percent, and that pointed to more building in March.

KEDI concurs with Michael Sumichrast of the National Association of Home Builders that builders are quite uncertain about 1985 and want to work as much

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.8
Civilian labor force	mil.	111.5	112.8	113.7	114.8	115.9	114.3	2.5
Employment	mil.	100.8	103.9	104.9	106.1	107.6	105.7	4.8
Agriculture	mil.	3.4	3.3	3.4	3.4	3.4	3.4	0.7
Nonagricult.	mil.	97.5	100.7	101.6	102.7	104.2	102.3	4.9
Unemployment rate	%	9.58	7.84	7.68	7.56	7.12	7.55	-21.2

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.3	117.0	118.0	119.4	120.9	118.8	4.0
Employment	mil.	105.7	108.7	109.8	111.1	112.4	110.5	4.5
Agriculture	mil.	3.4	3.3	3.3	3.3	3.4	3.3	-1.5
Nonagricult.	mil.	102.3	105.4	106.5	107.7	109.0	107.1	4.7
Unemployment rate	%	7.55	7.07	6.98	7.03	7.05	7.03	-6.9

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	118.8	120.1	122.8	124.6	126.1	123.7	4.1
Employment	mil.	110.5	113.3	114.8	116.5	118.0	115.7	4.7
Agriculture	mil.	3.3	3.4	3.4	3.4	3.4	3.4	2.3
Nonagricult.	mil.	107.1	109.9	111.4	113.1	114.6	112.3	4.9
Unemployment rate	mil.	7.03	7.21	7.20	7.19	7.09	7.17	2.0

*Historical data (1) % change over previous year

as they can now. Their expectations for the middle part of this year are quite strong. They forecast new single-family home sales being up 12 percent to 698,000.

The Home Price Comparison Index (from Sears, Roebuck's Coldwell Banker Corp.) indicates that in most of the top real estate markets, home resale values have gone up in the past six months. The same house (2,000 square feet with three bedrooms and two baths on an average lot in the suburbs) that would sell for $64,000 in Ft. Wayne, Indiana, would fetch a whopping $425,000 in a fancy section of Los Angeles. It would bring $93,000 in suburban Chicago, and $135,000 near Washington, D.C. Prices have been going up faster in Texas than anywhere else. Markets in California have been relatively flat. (They exceeded their limits years ago.)

KEDI forecast shows that the present housing boom will reach the top this year. In 1985 housing starts will decline slightly and a more significant drop in housing activity is projected for 1986. It is expected that the upward trend will resume in 1987 and the following years.

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast of passenger car production, imports, and sales remains unchanged. During 1984, 10 million passenger cars will be sold. About one-fourth of them will be comprised of imports. (The reader is referred ot Table 1.42.)

KEDI is not alone in seeing a strike in Ford's and GM's future this year. Except that to cause a seasonally adjusted decline of around 400,000 cars in factory production this year. Sales, however will remain strong as imports and inventories' reductions will fill the gap.

That gap-filling by imported cars is viewed here as a deviation from the general trend. The forecast shows the share of imported cars decreasing, but that decrease will not be substantial. For instance, sales of 2.5 million imports are forecast as compared to 2.4 million in each of the next two years.

In 1985 demand for cars will remain essentially flat with some declines in the latter part fo the year. Higher prices and interest rates on car loans will be contributing factors in dampening the demand for new models.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	 2	 3	 4	1984	% (1)
Single-family housing starts	mil.	1.067	1.251	1.264	1.163	1.082	1.190	11.5
Multi-family housing starts	mil.	.652	.684	.683	.648	.683	0.674	3.4
Mobile home shipments	mil.	.301	.302	.314	.327	.305	.312	3.7
Permits authorized	mil.	1.596	1.665	1.731	1.730	1.697	1.706	7.3
1-family unit price, new**	tho.$	90.3	94.9	96.7	99.6	101.3	98.1	8.7
1-family unit price, exist.**	tho.$	82.5	86.5	88.9	91.5	92.2	89.8	9.0

Indicator	Unit	1984	1985 1	 2	 3	 4	1985	% (1)
Single-family housing starts	mil.	1.190	.991	1.163	1.104	.918	1.044	-12.3
Multi-family housing starts	mil.	0.674	.678	.683	.672	.635	0.666	-1.2
Mobile home shipments	mil.	.312	.270	.275	.278	.251	.269	-13.8
Permits authorized	mil.	1.706	1.563	1.657	1.623	1.497	1.585	-7.1
1-family unit price, new**	tho.$	98.1	104.4	106.3	107.2	108.5	106.6	8.7
1-family unit price, exist.**	tho.$	89.8	94.0	96.8	98.3	99.7	97.2	8.2

Indicator	Unit	1985	1986 1	 2	 3	 4	1986	% (1)
Single-family housing starts	mil.	1.044	0.941	0.978	1.042	0.982	0.986	-5.6
Multi-family housing starts	mil.	0.666	0.594	0.606	0.610	0.573	0.596	-10.6
Mobile home shipments	mil.	0.269	0.243	0.258	0.260	0.268	0.268	-0.4
Permits authorized	mil.	1.585	1.385	1.406	1.411	1.320	1.390	-12.9
1-family unit price, new**	tho.	106.6	109.7	112.4	114.7	117.5	113.6	6.6
1-family unit price, exist.**	tho.	97.2	101.3	104.7	107.2	109.4	105.7	8.7

*Historical data (1) % change over previous year

1.50 BUDGETS

(Table 1.50 on page 19)

KEDI is in general support of the Administration's proposals to reduce the federal deficits. President Reagan and the GOP leadership in Congress recently agreed to a revised budget that would cut the deficits by around $74 billion over the next three years. There is a large "however" here. A potential imbalance in the economy caused by the deficits would be removed by curtailing red-ink totals by up to $100 billion over three years. That is, proposals to cut it by over $100 billion or up to $150 billion may become too costly to the economy. Calculations show that excessive deficit cutting may reduce the growth rates of the economy especially if such deficit reductions are achieved by increasing taxes. KEDI analyses demonstrate that the most beneficial approach will be deficit reductions by cutting the outlays to such an extent that the federal budget will not create the excess demand. It means to remove the excess demand from there where it originates. KEDI's calculations show that cutting the excess demand by approximately $100 billion will be sufficient enough to restore the balance in the public sector of the economy. Spending cuts should be the main method because tax increases lead to higher prices or to excessive demand for credit.

The following table shows the balance of financial sources and needs in the U.S. economy if the three years, $100 billion cutting measure is incorporated.

Years 1985-1987, billions $

	Sources of funds	Uses of funds
Households	484.1	
Business	1490.9	
State and Local Govts.	213.1	
Rest of the World	172.8	
Federal Government	-484.1	
Statistical Discrepancy	6.1	
Gross Private Domestic Investment		1884.6
Totals	1884.6	1884.6

Data in the table are projections for three years all for savings [illegible] and investments of sectors of the U.S. economy. (See: Table 5.1-Gross Saving and Investment, in: Survey of Current Business, U.S. Department of Commerce, Washington, D.C., monthly) Data present a balanced picture of sectors' needs of funds to finance fixed investment and inventories changes in 1985-1987.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Passenger cars: Total sales	mil.	9.0	9.9	10.0	9.9	9.8	10.0	11.1
Domestic	mil.	6.7	7.5	7.5	7.5	7.2	7.5	11.9
Imported	mil.	2.3	2.4	2.5	2.4	2.6	2.5	8.7
Dealers inventories, n.s.a.	mil.	1.5	1.6	1.5	1.7	1.2	1.6	6.7
Factory shipments	mil.	6.7	7.6	7.7	7.7	7.0	7.5	11.9
Light-duty truck sales	mil.	2.5	2.9	3.0	3.0	2.8	2.9	16.2

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Passenger cars: Total sales	mil.	10.0	9.9	9.9	9.7	9.7	9.8	-.2
Domestic	mil.	7.5	7.4	7.5	7.3	7.3	7.4	-1.4
Imported	mil.	2.5	2.5	2.4	2.4	2.4	2.4	-3.0
Dealers inventories, n.s.a.	mil.	1.6	1.6	1.7	1.7	1.8	1.7	6.3
Factory shipments	mil.	7.5	7.5	7.4	7.2	7.1	7.1	-1.4
Light-duty truck sales	mil.	2.9	2.3	2.8	3.0	2.8	2.9	.0

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Passenger cars: Total sales	mil.	9.8	9.5	9.7	9.6	9.3	9.5	-1.0
Domestic	mil.	7.4	7.1	7.4	7.2	6.8	7.1	-4.1
Imported	mil.	2.4	2.4	2.3	2.4	2.5	2.4	.0
Dealers inventories, n.s.a.	mil.	1.7	1.9	2.0	1.8	1.7	1.9	11.8
Factory shipments	mil.	7.1	7.2	7.3	7.0	6.9	7.1	.0
Light-duty truck sales	mil.	2.9	2.7	2.8	2.7	2.6	2.7	-6.9

*Historical data (1) % change over previous year

BUDGETS

Data in the table show savings generated by Households (Personal Saving), Businesses (Retained Earnings and Capital Consumption Allowances), State and Local Governments (Current Surpluses) plus capital inflow from overseas will be sufficient enough to cover not only deficits of the federal government but also all needs for capital outlays of businesses and outlays on residential construction. Provided that the projected $100 billion deficit reductions will be implemented,there is not seen any collision coming between the financing needs of government and businesses. No future excess pressures are seen on interest rates from the federal budget.

There is no change in the forecast for state and local governments. A fast growth in taxation is foreseen. State and local taxes are expected here to go up by almost 11 percent this year over last. Look to a rise in 1985 of 10 percent over the current year. The pace is seen as moving ahead just a bit more, again, in 1986. As is shown in Table 1.50, surpluses in this sector will be surging.

1.60 INCOME

(Table 1.60 on page 21)

The projection for 1984 here is slightly raised. The rapid growth of the first part of this year exceeded expectations in this office -- and in many other forecaster's offices. Also, the Department of Commerce rather substantially revised the January estimate of Personal Income in an upwards direction. Whereas the January rise in personal income had been published as being 1.1 percent, it was changed to 1.5 percent after mid-March.

Personal income in February was reported by the Commerce Department to have gained 0.7 percent. At the same time, consumer spending went down by the same percentage. That is a good sign. Some cooling has been needed. A lessening of spending at new car lots was the main contributor to the Feb. change.

It is another healthy sign that personal saving blossomed to an annual rate of $153 billion from a pace of $119 billion in the first month of this year. Such action means less fire being added to the overheated economic furnace.

Weekly average earnings were up just a bit in February. For the year

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	295.9	305.2	322.4	335.8	347.8	327.8	10.8
Corpor.profits tax accruals	bil.$	60.3	68.1	72.4	77.5	81.3	74.8	24.0
Surplus/deficit	bil.$	-181.6	-183.4	-178.2	-176.3	-172.5	-177.6	-2.2
State and local governments:								
Income taxes	bil.$	110.5	120.3	123.4	127.5	129.8	125.3	13.3
Corpor.profits tax accruals	bil.$	16.6	19.8	21.2	23.0	24.0	22.0	32.5
Surplus/deficit	bil.$	51.4	61.2	62.3	65.6	67.1	64.1	24.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	327.8	349.2	361.5	363.4	368.6	360.7	10.0
Corpor.profits tax accruals	bil.$	74.8	84.3	86.0	87.1	88.0	86.4	15.4
Surplus/deficit	bil.$	-177.6	-166.2	-160.4	158.7	-154.3	-159.9	-10.0
State and local governments:								
Income taxes	bil.$	125.3	133.1	134.8	137.2	139.9	136.3	8.8
Corpor.profits tax accruals	bil.$	22.0	24.9	27.3	28.2	29.3	27.4	24.7
Surplus/deficit	bil.$	64.1	69.4	72.3	73.1	74.2	72.3	12.8

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	360.7	372.4	374.3	376.1	378.7	375.4	4.4
Corpor.profits tax accruals	bil.$	86.4	89.5	90.2	90.8	91.4	90.5	4.8
Surplus/deficit	bil.$	-159.9	-150.2	-148.3	-145.8	-142.1	-146.1	-8.3
State and local governments:								
Income taxes	bil.$	136.3	140.8	141.6	142.0	142.7	141.8	4.1
Corpor.profits tax accruals	bil.$	27.4	30.1	30.4	30.8	31.4	30.7	11.9
Surplus/deficit	bil.$	72.3	75.3	76.1	77.2	78.0	76.7	6.1

*Historical data (1) % change over previous year

INCOME

as a whole, KEDI projects such earnings will be up by 6.3 percent. That is above the projected rate of inflation. Again, in 1985, the average gain of 6.4 percent over the current year is seen as above the rate of inflation.

The outlook for corporate profits remains essentially the same. Look to a good year -- especially for aerospace, building materials, electrical equipment and electronics, forest products, office equipment and computers, rubber, paper, and autos in terms of after-tax profits gains this year over the last year.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

Indications are that the Federal Reserve tightened policy in March. As was stated here last month, such a move was needed. KEDI agrees with David M. Jones of Aubrey G. Lanston & Co. that credit was tightened around mid-March. Timothy Howard of the Federal National Mortgage Association pointed to a surge in the interest rate on Federal funds and the change in some banking figures as results of such a move. That view is shared here.

It is anticipated that action by the Fed in the coming months will have enough cooling effect on the money supply and the demand for credit to bring growth to more reasonable levels. Consequently, the forecast data in this issue does not show any abrupt inflationary increases for monetary and credit aggregates. The forecast here of monetary and credit aggregates has been increased somewhat when compared to the March forecast.

Presented here are the percentage gains over the previous year in three areas:

	1984	1985	1986
Money supply, M1	7.0	6.1	5.5
Commercial and industrial loans	3.8	4.2	3.0
Consumer installment credit	7.9	3.8	5.1

For the current year, the forecast does show a cooling of the fast pace of the first quarter.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2742.1	2952.4	2999.0	3058.2	3163.3	3043.2	11.0
Personal disposable income	bil.$	2335.6	2526.9	2553.2	2594.9	2685.7	2590.2	10.9
Compensation of employees	bil.$	1990.2	2140.6	2170.5	2214.7	2268.3	2198.5	10.4
Corporate after tax profits	bil.$	130.6	150.1	155.8	161.3	165.2	158.1	21.0
Personal saving	bil.$	113.6	148.4	142.4	147.0	153.8	147.9	30.2
Average weekly earnings	$	354.6	368.9	372.7	379.1	387.5	377.1	6.3

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Personal income	bil.$	3043.2	3221.0	3284.5	3347.8	3411.1	3316.1	8.9
Personal disposable income	bil.$	2590.2	2738.7	2788.2	2847.2	2902.6	2819.2	8.8
Compensation of employees	bil.$	2198.5	2305.4	2335.2	2374.1	2391.7	2351.6	7.0
Corporate after tax profits	bil.$	158.1	174.1	175.2	175.4	174.7	174.8	10.5
Personal saving	bil.$	147.9	163.7	166.5	170.2	166.4	166.7	12.7
Average weekly earnings	$	377.1	392.3	398.9	404.2	409.5	401.2	6.4

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Personal income	bil.$	3316.1	3475.3	3535.1	3592.4	3664.7	3566.9	7.6
Personal dosposable income	bil.$	2819.2	2962.1	3019.2	3074.3	3143.3	3049.7	8.0
Compensation of employees	bil.$	2351.6	2447.2	2462.3	2500.9	2521.2	2482.9	5.7
Corporate after tax profits	bil.$	174.8	176.9	179.1	183.2	188.6	182.0	4.3
Personal saving	bil.$	166.7	170.1	168.1	170.5	169.2	169.5	1.7
Average weekly earnings	$	401.2	412.3	416.7	419.5	424.8	418.3	4.3

*Historical data (1) % change over previous year

MONEY AND CREDIT

Consumer installment credit will slow down considerably in its expansion rate during the second half of this year. The other credit aggregates show a similar trend. The forecast of mortgage credit shows that mortgage money will be abundant and will not push up the mortgage rates to excessive heights.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The projection for interest rates has been increased slightly. Look for them to keep on increasing but not to "unreasonable" heights. KEDI expects that the Fed will keep to a tight policy for most of this year. There will be a bit of loosening toward the end of this year and more tightening during 1985.

The prime rate is expected to move above 12 percent around the middle of this year. At that time the federal funds rate will be close to 12 percent and 3-month Treasury bills at around 11 percent.

While short-term rates stabilize at that level for most of the rest of this year, look to long-term rates to continue climbing this year and through 1985. The yield on 20-year government bonds is forecast close to 14 percent toward the end of this year, while the yield on AAA corporate bonds is set at 13.7 percent, and the mortgage rate is forecast at 14.5 percent.

The higher interest rates are not seen as significantly altering the stock market performance. Stock market averages will be generally flat this year without any significant ups or downs. In the first months of 1985, look for a more broadly based decline that will be temporary.

The outlook for the bond market shows increasing interest of investors. Yields are projected to continue to gain throughout this year and in 1985. Federal and corporate bond yields show steady gains. State and local bonds issues are expected to be more stable -- no substantial increases in yields are projected for 1984 - 1985.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures;other data are end of period figures)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Currency and demand deposits,M1	bil.$	507.8	528.7	541.5	548.7	555.2	543.5	7.0
Time deposits, adjusted,M2	bil.$	2111.9	2237.9	2287.4	2338.1	2387.5	2312.7	9.5
Consumer instal. credit	bil.$	387.9	393.9	400.5	408.6	418.7	418.7	7.9
Commerc. & indus. loans at banks	bil.$	413.1	415.7	419.1	424.3	428.9	428.9	3.8
Large denomination time dep.	bil.$	310.4	324.2	327.1	329.2	334.1	328.7	5.9
Mortgages at S&L Assns.	bil.$	492.8	498.0	508.4	516.6	525.9	525.9	6.7

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Currency and demand deposits,M1	bil.$	543.5	563.4	570.8	583.2	589.3	576.7	6.1
Time deposits, adjusted,M2	bil.$	2312.7	2439.7	2491.6	2538.1	2590.6	2515.0	8.7
Consumer instal. credit	bil.$	418.7	422.3	425.6	429.4	434.7	434.7	3.8
Commerc. & indus. loans at banks	bil.$	428.9	432.1	436.5	439.7	446.8	446.8	4.2
Large denomination time dep.	bil.$	328.7	335.2	338.1	341.2	347.2	340.4	3.6
Mortgages at S&L Assns.	bil.$	525.9	528.7	531.4	535.8	537.2	537.2	2.1

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Currency and demand deposits,M1	bil.$	576.7	595.6	600.8	614.9	621.7	608.3	5.5
Time deposits, adjusted,M2	bil.$	2515.0	2650.7	2714.5	2780.7	2865.4	2752.8	9.5
Consumer instal. credit	bil.$	434.7	437.2	445.2	450.7	456.9	456.9	5.1
Commerc. & indus. loans at banks	bil.$	446.8	448.1	452.1	455.6	460.3	460.3	3.0
Large denomination time dep.	bil.$	340.4	349.2	352.7	354.1	357.2	353.3	3.8
Mortgages at S&L Assns.	bil.$	537.2	539.8	543.1	546.5	551.4	545.2	1.5

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Corporate Profits After Tax in current dollars in 1983 has been selected for comparison. The actual figure is the U.S. Department of Commerce March 20, 1984 estimate. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Corporate Profits After Tax, bil. curr.$)

Actual figure: 130.6

Forecaster(and page in source)	Date of Forecast	Forecast	% of Accuracy
Georgia State University, pg 17	11/82	141.3	8.2
ARMCO, pg 19	11/3/82	138.0	5.7
Chemical Bank, pg 20	11/9/82	138.0	5.7
American Statistical Association and National Bureau of Economic Research, pg 21	12/82	130.3	-.2
Manufacturers Hanover Trust Company, pg 22	12/82	128.9	-1.3
Metropolitan Life Insurance Company, pg 24	12/1/82	142.8	9.3
The Fidelity Bank, pg 25	12/8/82	145.6	11.5
Citibank Economic Forecast Service, pg 26	9/12/82	135.7	3.9
Chase Econometrics, pg 29	12/29/82	127.1	-2.7
KEDI, pg 30	1/1/83	128.4	-1.7
Standard & Poor's Corporation, pg 34	1/6/83	128.7	-1.5
Morgan Guaranty Trust Company of New York,pg 35	1/7/83	123.5	-5.4

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	8.61	9.14	9.98	10.24	10.30	9.92	-15.2
Prime rate	%	10.78	11.26	11.54	12.00	11.63	11.60	7.6
Conventional mortgage rate	%	13.43	13.61	13.89	14.06	13.58	13.79	2.7
Aaa corporate bonds rate	%	12.04	12.30	12.71	12.97	13.21	12.80	6.3
20 years Govt. bonds yield	%	11.34	12.04	12.32	12.41	12.75	12.38	9.2
Standard & Poor's 500 Average	%	160.41	163.14	161.27	160.75	163.24	162.1	1.1

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	9.92	10.86	11.42	11.65	11.54	11.37	14.6
Prime rate	%	11.60	12.14	12.58	13.42	13.25	12.80	1.1
Conventional mortgage rate	%	13.79	13.69	13.70	13.86	13.90	13.79	.0
Aaa corporate bonds rate	%	12.80	13.14	13.18	13.52	13.74	13.40	4.6
20 years Govt. bonds yield	%	12.38	12.89	13.04	13.14	13.45	13.13	6.0
Standard & Poor's 500 Average	%	162.1	157.11	155.24	151.17	149.23	153.19	-5.5

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	11.37	11.70	11.36	11.16	10.82	11.26	1.0
Prime rate	%	12.80	13.20	13.05	13.00	12.20	12.86	0.5
Conventional mortgage rate	%	13.79	13.84	13.70	13.68	13.24	13.62	-1.27
Aaa corporate bonds rate	%	13.40	13.81	13.62	13.43	13.05	13.48	0.6
20 years Govt. bonds yield	%	13.13	13.72	13.78	13.65	13.14	13.58	3.4
Standard & Poor's 500 Average	%	153.19	150.34	154.17	159.26	164.35	157.03	2.5

*Historical data (1) % change over previous year

3.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

The March issue of this Survey contains technical data on the Kent Model that pertain to the model's three Divisions and numbers of variables. This April issue contains data on forecast horizon, language used in the model's programs, and types of equations.

4.13 Forecast horizon. Forecast data are presented by quarters and as yearly totals and averages. Quarterly and yearly data are regularly forecast for three years ahead. Forecast horizon can be extended quarterly till 1995 and with some adjustments, for an unlimited perios ahead.

4.14 Programing language. Kent Model's computer programs are written in FORTRAN IV.

4.15 Constant Values, Current Values, and Price Deflators. Data for commodities are presented in constant values, current values, and as price deflators. Data for services of factors of production, costs, income, credit, interest rates and yields are presented in current values. Selected data are used as quantities, prices, percentages, and ratios.

4.20 TYPES OF EQUATIONS

Four types of equations are used in the Kent Model:

- identities
- technical
- institutional
- behavioral

4.21 Identity Equations. Identity equations together with technical equations form the basis of the Kent Model's system of equations. Identity equations express those relationships in the economy of any country that had existed, that exist now and will exist in the future. Such identity relationships are, for example: Receipts and Expenditures At any time, receipts of any unit wether of an individual or a government or business firm or any other economic unit must equal its expenditures plus its surplus or deficit. Assets and Liabilities Total of assets must equal total of liabilities plus net worth. Costs and Sales Total of receipts from sales plus changes in inventories equals costs of goods and services sold plus profits or loss. Purchases and Sales Purchase of a commodity equals its sale. Final use of income Income is ultimately spent on consumption or it is saved. Such relationships cannot be modified, adjusted or changed. They are not refutable. Identity equations guarantee that forecast data generated by an economic model respect these basic and obvious facts of economic life of firms, individuals, governmental units, and economies of countries. In the Kent Model, identity equations provide a framework that interrelates equations in each Division and links all three Divisions into a consistent system.

4.22 Technical Equations. In the Kent Model, the second group of equations are technical equations. They express technical relationships. For example: number of tons of iron ore needed to produce one ton of raw steel; number of kilowat-hours needed to mine one ton of copper ore; gallons of water needed to produce one ton of woodpulp. Technical relationships are more stable than economic relationships. They are changing more slowly because it takes time for new technologies, innovations and other types of technical progress to become broadly accepted and adopted by producers. It is generally agreed that it takes approximately an average of five years until new technologies are able to change significantly the existing relationships.

In one country, all technical relationships taken together, form a technology base of the country's economy. When expressed in numbers and aggregated, they are called technology matrices. They express technical relationships existing among industries and sectors of the economy. Technology matrices enable one to express flows of commodities among industries in the economy and to develop economic maps of relationships among industries and sectors. A method that deals with interindustry and intersectoral relationships in the economy is called the input-output analysis or the interindustry analysis. It was developed by the Nobel Prize laureate professor Wassilly Leontief (1936, 1941) and represents a powerful analytic tool used by economists in all countries in the world.

Until the present time most economic models did not include the interindustry analysis and consequently, they were unable to represent the entire economy of a country. On the other hand, some models are exclusively interindustrial and do not include those areas of the economy that are beyond the scope of the interindustry analysis. Economic models that have synthetized both aspects are still scarce. The Kent Model contains a full synthesis of both approaches. It uses the 83 by 83 interindustry matrices,in quarterly values, and in constant and current terms.

Leontief, W.W.: Quantitative Input-Output Relations in the Economic System of the United States. The Review of Economic Statistics, Vol.18,No.3,August 1936

Leontief, W.W.: The Structure of the American Economy. Oxford University Press, Oxford, 1941

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 3.00 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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President: Dr. Vladimir J. Simunek

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This forecast uses the April, 1984, U.S. Department of Commerce first estimates of 1984:1 National Income and Product data. Also used is the April 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

0.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

0.01 EXECUTIVE SUMMARY

Those that look to second quarter growth of up to 5 percent can be classed as pessimists as that would mean a burn out of the recovery by next year. KEDI belongs to the optimistic group with a forecast of expansion in the second quarter slowing quite a bit from the overheated pace of the first three months of this year. Expect second quarter growth of 2.7 percent. (Less is sometimes better even in growth.) REAL GROWTH Real GNP will expand by 5.4 percent in 1984. and the pace will slow in 1985 to about one-half of that rate. Downward adjustments in retail sales, the slowing of the pace of production, shipments, and the housing starts drop are seen here as necessary adjustments that are welcome. They point to a recovery that will not run out of energy. The increase in the capacity utilization rate to an average of 80.9 percent indicates basic strength. PRICES The modest move in the CPI was in line with forecasts here. The PPI has been moving ahead at a more rapid pace, but the inflation for 1984 is not seen as being worrisome with the CPI gaining 5.1 percent and the PPI, 5.4 percent. EMPLOYMENT AND LABOR The jobless rate was the same in Feb. and March with gains in employment being offset by an increase in the number of people looking for work. Expect joblessness to creep down to a 7.1 average by the last quarter of this year. HOUSING After the burst in starts in the first two months of the year, the March decline was healthy. The forecast of starts averaging 1.86 million this year is maintained. AUTOS The forecast is raised. Look to total sales of 10.2 million this year and a small decline in 1985 to 9.8 million. BUDGETS There is no change in the forecast. Borrowing needs of government and industry will not clash. The calendar year federal deficit is projected here as falling to $146 billion in 1986 which is an improvement over the $182 billion total for 1983. INCOME Savings will expand this year over 30 percent. Corporate profits will be good. MONEY AND CREDIT The forecast is maintained for M1 to grow by 7 percent. Due to all that car buying, the forecast for consumer installment credit is somewhat raised. INTEREST RATES, YIELDS, SECURITIES No downward move in interest rates is projected. Bond yields will edge ahead. The prime rate is seen close to 12 percent at the end of the year while the conventional mortgage rate goes to 13.6.

0.02 OVERVIEW

The economy is open to a range of opinions about its course for the rest of this year and next year. The "Gloomy Gus" view is that growth will continue to be too rapid with a 4-5 percent expansion rate in the second quarter that would help to rekindle inflation and assorted ripple results curtailing recovery by next year. KEDI belongs to the more optimistic group that looks to second quarter gains in inflation-adjusted GNP at an annual rate of 2 to 3 percent. To be precise, the forecast here is for that rate to be 2.7 percent. That is just a tad lower than the 2.9 second quarter rate forecast by Mr. Ratajczak of Georgia State. Both projections are well below the 5 percent growth forecast by Mr. Hymans of the U. of Michigan Economic Forecasting Project for that period. The KEDI projection for the third quarter is at 3.1, and for the fourth quarter, it is 4.5 percent. Such rates mean the overheating will cease to be of concern and growth is seen as continuing at a more mild pace. Do not look to a recession. The outlook for this year and the next three years is presented here.

LONG-TERM OUTLOOK

1984 The rapid pace, 8.3 percent, of first quarter gains was not trend setting. Growth during the remaining quarters will be adequate to call this year a strong one. Expect GNP to be up 5.4 percent over the prior year. Inflation is forecast at 5.1 percent while the jobless rate moves down to a 7.6 average. The IIP will bound ahead by 10.8 percent.

1985 Look to a significant slowing. No--there is no recession looming out there. Why will there be a cut in growth by roughly one-half the pace of the current year?--Because of high interest rates, tight monetary and credit policies, federal budget cuts, and increasing taxation by state and local governments. High interest rates will reflect continuation of generally tight Fed policy. Long-term rates are seen as edging ahead more while short-term rates stay fairly stable. Federal deficit reduction moves mean less spending at the national level. This, of course, means the multiplier aspect of such spending has a smaller base. Part of the lower spending at the Washington level will come from a reduction in transfer payments to state and local governments. In order to make up for part of that loss, there are going to be hikes in taxes so budget balance and tension is relieved at town council and state board meetings. Look to a growth rate in real GNP of just about 2.6-2.7 percent in 1985. As measured by the CPI, inflation is calculated

KEDI FORECAST HIGHLIGHTS

TABLE 0.00

Indicator	Unit	1984	1986	1987	1988
Gross national	bil.72$	1617.5	1659.4	1749.6	1844.1
product	% change	5.4	2.2	3.2	5.4
Index of industrial	1967=100	163.7	172.8	182.6	200.7
production	% change	10.8	5.5	5.7	9.9
Capacity	%	81.0	80.8	82.0	82.4
utilization	% change	7.6	-1.5	1.5	.5
Unemployment	%	7.57	7.15	6.84	6.58
rate	% change	-21.0	1.7	-4.3	-3.8
Private housing	mil.units	1.847	1.536	1.691	2.001
starts	% change	7.6	-3.5	10.1	18.3
Car	mil.units	10.2	9.7	10.7	11.3
sales	% change	13.3	-1.5	5.2	9.1
Implicit GNP	1972=100	224.5	249.5	262.5	276.7
price deflator	% change	4.1	5,4	5.2	5.4
Consumer price	1967=100	313.0	349.6	369.9	392.5
index	% change	5.1	5.7	5.8	6.1
Producer price index	1967=100	300.1	340.9	363.1	388.9
(Finished goods)	% change	5.4	6.3	6.5	7.1
Federal	bil.$	-177.7	-146.6	-150.3	-148.6
deficit	% change	2.4	-8.8	2.5	-1.1
Personal	bil.$	3015.6	3462.7	3770.9	4170.6
income	% change	10.0	6.2	8.9	10.6
Prime	%	11.81	11.10	11.66	12.28
rate	% change	9.5	-2.0	5.0	5.3
Mortgage	%	13.64	13.42	13.03	12.88
rate	% change	1.6	-1.6	-2.9	-1.2
Currency plus	bil.$	543.9	609.2	650.6	697.4
demand deposits	% change	7.0	5.5	6.8	7.2
Commercial and	bil.$	430.8	463.6	482.1	502.3
industrial loans	% change	3.8	3.1	4.0	4.2

Numbers in "% change" rows show percent changes over the previous year

OVERVIEW

at 5.6 percent in 1985 as compared to 1984. The gain in the IIP will be down sharply from the pace in 1984: up 5.5 percent in 1985. Look to a slightly lower unemployment rate toward the end of the year of 7.0 percent.

1986 This year will represent the trough of the cycle. For most of the year, growth will be slow with some sectors showing declines. Money and credit will remain tight. Again, state and local taxes are expected to edge ahead with grumbling by voters but general acquiescence. Federal budget cuts cause consternation by some as the bitter pills of fiscal steps to some degree of balance proceed. Look to real GNP being somewhat behind the prior year by roughly 2.2 percent. Although the CPI is forecast here as increasing by close to 5.7 percent during 1986, the rate of gain toward the end of the year will show a slowing. The jobless rate is projected as showing a slightly higher average for the year of 7.2 percent. Expect the IIP to be 2.6 percent higher than it was in the previous year.

1987 Anticipate an upswing here. Finally, money and credit will see some loosening. At this time, a decline in interest rates that should go beyond 1987 is projected. Foreign trade will begin to improve. Look to an expansion in GNP of approximately 3.2 percent in 1987 while the IIP moves ahead by 5.7 percent. The inflation rate will edge down, and the jobless rate again is nicked a bit by slightly better times.

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, assumptions No.3 and No.5 have been updated.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1987 period. In 1984, stabilizing is expected. Some relaxation will take place in 1987.

4. In 1984 and 1985 good harvests are assumed for this country, and average

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1535.3	1604.3	1614.1	1621.4	1630.2	1617.5	5.4
Index of industrial production	1967= 100	147.7	159.3	163.0	164.0	165.1	163.7	10.8
Unemployment rate	%	9.6	7.9	7.7	7.6	7.1	7.6	-21.0
Capacity utilization rate	%	75.2	80.4	81.0	80.9	81.5	81.0	7.6
Private housing starts	mil.	1.716	1.965	1.907	1.781	1.736	1.847	7.6
Car sales	mil.	9.0	10.4	10.2	10.2	9.9	10.2	13.3

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1617.5	1645.2	1657.8	1663.6	1671.2	1659.4	2.6
Index of industrial production	1967= 100	163.7	166.1	168.0	169.2	170.1	168.4	2.8
Unemployment rate	%	7.6	7.1	7.0	7.0	7.0	7.0	-7.0
Capacity utilization rate	%	81.0	82.0	82.3	81.9	81.6	82.0	1.2
Private housing starts	mil.	1.847	1.613	1.643	1.620	1.488	1.591	-13.9
Car sales	mil.	10.2	9.9	9.9	9.7	9.7	9.8	-4.0

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1659.4	1681.4	1689.7	1699.5	1711.3	1695.5	2.2
Index of industrial production	1967= 100	168.4	171.0	171.2	172.8	176.2	172.8	2.6
Unemployment rate	%	7.0	7.2	7.2	7.2	7.1	7.2	1.7
Capacity itilization rate	%	82.0	81.0	80.9	80.3	80.8	80.8	-1.5
Private housing starts	mil.	1.591	1.524	1.558	1.560	1.502	1.536	-3.5
Car sales	mil.	9.3	9.5	9.7	9.6	9.8	9.7	-1.5

***Historical data (1) % change over previous year**

ASSUMPTIONS

production of crops is expected in the U.S.S.R. and China. U.S. record are expected in 1986-1987.

5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%, Japan 2.6%.

6. No drastic changes in international relationships are anticipated.

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected key indicators of the May 1984 KEDI forecast. Data show a general slowdown in years 1985 and 1986 as a trough of the cycle. The upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years.

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The forecast here at KEDI shows the first quarter of 1984 did not herald the start of a boom that would quickly turn to bust. The current and following quarters are calculated as showing much lower--and more sustainable--rates of gradually increasing expansion from the anticipated 2.7 percent pace of the second quarter.

1. It has been overlooked by some that a large contributor to the 8.3 percent jump in the first quarter was the huge buildup in inventories. We are not talking here about manufacturing inventories alone but of total business inventories which include wholesale, retail, mining, and agricultural stocks also. The large buildup of the first quarter is not going to repeat itself. That is one reason why growth rates of the current and following quarters of this year are not projected at anywhere near the first quarter pace.

2. Retail sales took a steep drop in March as they declined by 2.2 percent from the adjusted February level, and that is viewed here as necessary news cooling the overheated. Early indicators for April show that retail sales will remain weak. KEDI does not see that bad weather or late Easter had much to do

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Gross national product	bil. 72$	1535.3	1604.3	1614.1	1621.4	1630.2	1617.5	5.4
Personal cons. expenditures	bil. 72$	1011.4	1046.9	1055.7	1055.9	1063.2	1055.4	4.4
Gross private dom. investment	bil. 72$	219.0	272.2	270.4	274.1	270.1	271.7	24.1
Net exports	bil. 72$	11.3	-6.5	-8.2	-7.6	-4.3	-6.7	--
Federal govt. purchases	bil. 72$	117.8	114.4	117.6	118.1	119.3	117.4	-0.4
State and local purchases	bil. 72$	175.3	177.3	178.6	180.9	181.9	179.7	2.5

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil. 72$	1617.5	1645.2	1657.3	1663.6	1671.2	1659.4	2.6
Personal cons. expenditures	bil. 72$	1055.4	1074.4	1079.9	1085.7	1079.8	1080.0	2.3
Gross private dom. investment	bil. 72$	271.7	270.1	273.4	270.3	278.9	273.2	0.6
Net exports	bil. 72$	-6.7	-3.2	-2.1	-2.1	-.8	-2.1	--
Federal govt. purchases	bil. 72$	117.4	120.7	122.1	123.6	125.4	123.0	4.8
State and local purchases	bil. 72$	179.7	183.2	184.5	186.1	187.9	185.4	3.2

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Gross national product	bil. 72$	1659.4	1681.4	1689.7	1699.5	1711.3	1695.5	2.2
Personal cons. expenditures	bil. 72$	1030.0	1034.7	1088.4	1092.5	1105.0	1092.7	1.2
Gross private com. investment	bil. 72$	273.2	279.4	279.8	281.3	277.4	279.5	2.3
Net exports	bil. 72$	-2.1	1.4	2.7	3.4	4.0	2.9	--
Federal govt. purchases	bil. 72$	123.0	126.8	128.2	129.4	130.3	128.3	4.8
State and local purchases	bil. 72$	185.4	189.1	190.6	192.9	194.1	191.7	3.4

*Historical data (1) % change over previous year

with the downward move.

3. The slowing of gains being made in the nation's factories, some mines, and utilities is seen as welcome news that the expansion pace was lessening. March industrial production was up 0.4 percent as compared with the 1.4 percent jump in January and the 1 percent increase in February. KEDI does not see this rate as moving down to naught. (No straight line projection is to be applied here.)

4. Factory shipments were down in January, seasonally adjusted, but moced minutely in February and March which is okayed here. See-saw moves and adjustments both directions are to be expected during this part of the recovery.

5. The small decline in the production of paper and paperboard from the adjusted January pace and leveling in March also points to an end of overheating.

Developments so far outlined do not mean the economy is going flat. There are areas of gains in recent data. Taken together the ups and downs show the move to more reasonable growth levels. The economy will remain strong.

6. Aluminum production in March edged ahead to an annual rate of 4.6 million tons. Production here is at capacity and meeting the demands of builders for aluminum siding provides a good part of the impetus. Forecast data show that no further significant increases in the demand for aluminum will take place.

7. Housing and autos Developments in housing starts point to adjustments from the pace of the first quarter. The reader is referred to sections 1.41 and 1.42. Auto sales continue to show improvement through mid-April.

8. Factory orders were reported to be up 0.7 percent in February and 0.5 percent in March which is seen generally as pointing to fair gains in production in the following months. April factory orders are forecast at 0.4 percent.

9. The survey of Purchasing managers showed the economy continuing to expand while prices edged up as the second quarter opened. Over three-fourths of those surveyed reported that the first quarter met or exceeded their expectations. (It exceeded ours and many others also.) Over two-thirds were optimistic about the next 12 months. The survey showed production and

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TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	297.8	306.6	310.1	315.3	319.8	313.0	5.1
Producer price index,n.s.a.**	1967=100	284.7	291.4	297.7	302.6	308.8	300.1	5.4
Price deflators:								
GNP	1972=100	215.6	219.1	222.8	225.7	230.1	224.5	4.1
Personal cons. expenditures	1972=100	213.3	217.9	220.0	223.3	228.6	222.5	4.3
Gross private dom. investment	1972=100	215.4	218.7	221.1	223.1	227.2	222.8	3.4
Federal purchases	1972=100	233.2	240.4	237.5	242.8	248.0	242.1	3.4

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Consumer price index,n.s.a	1967=100	313.0	324.3	328.5	332.5	337.0	330.6	5.6
Producer price index,n.s.a.**	1967=100	300.1	313.4	317.0	323.6	329.0	320.8	6.9
Price deflators:								
GNP	1972=100	224.5	232.5	234.3	237.9	241.9	236.6	5.4
Personal cons. expenditures	1972=100	222.5	230.0	231.8	235.0	238.3	233.8	5.6
Gross private dom. investment	1972=100	222.8	230.1	229.9	236.7	244.1	235.2	5.6
Federal purchases	1972=100	242.1	249.9	254.0	257.0	258.5	254.8	5.2

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	330.6	342.3	347.0	351.9	357.2	349.6	5.7
Producer price index,n.s.a.**	1967=100	320.8	334.3	338.3	343.0	347.8	340.9	6.3
Price deflators:								
GNP	1972=100	236.6	243.7	246.8	250.9	256.8	249.5	5.5
Personal cons. expenditures	1972=100	233.8	240.3	243.8	249.0	254.6	246.9	5.6
Gross private com. investment	1972=100	235.2	246.3	248.5	249.9	259.7	251.1	6.8
Federal purchases	1972=100	254.8	258.7	258.8	261.1	261.8	260.1	2.1

*Historical data (1) % change over previous year

new orders remained strong and employment for most was about the same. About one-half of those in the survey indicated that prices in March were higher than they had been in the month of February. That was the higher percent showing gains in prices in three years, but KEDI does not see any reason to get up-tight as inflation is forecast on the moderate side.

10. Production of raw steel remained strong in April. Indications point to continuation of that trend during May. Steel needed for cars will level, but at the same time the demand for structural steel will increase.

11. Unfilled orders edged ahead in February on an adjusted basis. They were at $346 billion--up $6 billion from the previous month. Early data for March show a modest increase of $3 billion.

12. Indications are that factories again pushed their capacity use up in April. In March, factories, mines, and utilities were operating at 81.1 percent of capacity and that reflects a modest and respectable gain from the prior month. In this quarter the capacity utilization will peak. It will remain at approximately the same level throughout the rest this year. In the first quarter of this year, electrical machinery was operating at 92.2 percent, rubber and plastics at 93.2 percent, paper at 98.5 percent, and aluminum at almost 100 percent. KEDI does not expect that these leading industries will retain such levels of utilization for the rest of this year. Forecast data of this Institute show that no other industries will reach a more than 90 percent utilization levels. On the other hand, such industries as farm machinery, nonfarm chemicals, and some mining will gradually keep increasing their capacity utilization but still remain below more normal levels.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast is not changed. Inflation as measured by the CPI will be up 5.1 percent this year over last year. In 1985, look to a further gain of 5.6 percent, while calculations show that 1986 will have an inflation rate of close to 5.7 percent. KEDI does not share the view that inflation

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil.$	3310.5	3514.2	3595.6	3659.2	3759.6	3323.8	7.8
Personal cons. expenditures	bil.$	2158.0	2280.5	2322.3	2357.9	2430.6	2347.8	8.8
Gross private dom. investment	bil.$	471.9	595.3	600.6	611.5	613.7	605.3	28.3
Net exports	bil.$	-23.6	-45.2	-46.7	-43.2	-33.3	-42.1	--
Federal govt. purchases	bil.$	281.1	275.0	279.3	286.7	295.9	284.2	1.1
State and local purchases	bil.$	414.7	435.6	440.1	446.3	452.7	443.7	7.0

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil.$	3323.8	3824.4	3883.6	3957.2	4042.0	3926.8	8.1
Personal cons. expenditures	bil.$	2347.8	2471.6	2503.1	2551.6	2573.4	2524.9	7.5
Gross private dom. investment	bil.$	605.3	621.5	628.5	639.8	680.8	642.7	6.2
Net exports	bil.$	-42.1	-29.5	-26.3	-26.6	-23.5	-26.5	--
Federal govt. purchases	bil.$	284.2	301.6	310.1	317.6	324.1	313.4	10.2
State and local purchases	bil.$	443.7	459.2	468.2	474.8	487.2	472.4	6.5

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil.$	3926.8	4097.3	4169.7	4263.5	4393.8	4231.0	7.7
Personal cons. expenditures	bil.$	2524.9	2606.9	2653.6	2720.1	2813.2	2698.5	6.9
Gross private dom. investment	bil.$	642.7	688.2	694.3	703.0	720.4	701.5	9.1
Net exports	bil.$	-26.5	-16.9	-11.3	-8.5	-5.3	-10.5	--
Federal govt. purchases	bil.$	313.4	328.0	331.8	337.8	342.4	335.0	6.9
State and local purchases	bil.$	472.4	491.1	501.3	511.1	523.1	506.7	7.3

*Historical data (1) % change over previous year

PRICES

is likely to reach a 7 percent pace by year's end as indicated by economists attending the Conference Board's business outlook meeting. The estimate here is a rate of 6.3 by the end of this year. It will lessen from that pace during 1985.

Consumer prices moved a modestly pleasant 0.2 percent in March. The decline in food costs just about offset the strong gain in transportation costs. Grocery prices were off by 0.3 percent after going up 2.4 percent in January and 0.9 percent in the following month. The meat prices are forecast as going up through the summer for beef and poultry in fairly modest increments. Pork, however, may rise a bit more. Fuel oil prices were down 4.3 percent, but gasoline prices were up 1 percent after seasonal adjustment. The CPI was at 303.3 in March. (That is, the "market basket" of goods that cost $100 in 1967 cost $303.30 this March.)

Producer prices were up 0.5 percent in March following a 0.4 percent gain in Feb. Producer prices for all energy goods were off 1.2 percent. Outside of food and energy, there was a broad range of gains averaging 0.7 percent. The 2 percent gain in raw material prices is a signal of more price gains to come, but KEDI still views the overall picture as being one that is moderate for the year as a whole given the recent history of such price moves.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

Forecast data for 1984 of Nominal GNP components show Gross Private Domestic Investment as the fastest growing component with a 28.3 percent increase in 1984 over 1983 as compared to the 7.8 percent gain in nominal GNP and the 8.8 percent increase in Personal Consumption Expenditures. In this stage, the recovery in 1984 will be carried more by business investment and less by consumers. However, the 28.3 percent projected rise in Gross Private Domestic Investment contains a 15.2 percent increase in inventories and a 13.1 percent increase in fixed capital formation. That 13.1 percent indicates 1984 growth of the U.S. economy will not be burdened by excessive fixed investment--one of the main sources of inflationary pressures.

As seen from Table 1.22, the foreign trade balance will stay in the red throughout the 1984 - 1986 period. Reasons: in 1984 - 1986 the international value

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TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

					1984			
Indicator	Unit	1983*	1	2	3	4	1984	% (1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.8
Civilian labor force	mil.	111.5	112.8	113.7	114.8	115.9	114.3	2.5
Employment	mil.	100.8	103.9	104.9	106.1	107.6	105.7	4.8
Agriculture	mil.	3.4	3.3	3.4	3.4	3.4	3.4	0.7
Nonagricult.	mil.	97.5	100.6	101.6	102.7	104.2	102.3	4.9
Unemployment rate	%	9.58	7.87	7.69	7.57	7.13	7.57	-21.0

					1985			
Indicator	Unit	1984	1	2	3	4	1985	% (1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.3	117.0	118.0	119.4	120.7	118.8	4.0
Employment	mil.	105.7	108.7	109.8	111.0	112.2	110.4	4.5
Agriculture	mil.	3.4	3.3	3.3	3.3	3.4	3.3	-1.5
Nonagricult.	mil.	102.3	105.4	106.5	107.7	108.8	107.1	4.7
Unemployment rate	%	7.57	7.09	6.99	7.01	7.04	7.03	-7.0

					1986			
Indicator	Unit	1985	1	2	3	4	1986	% (1)
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	118.8	121.1	122.8	124.4	126.0	123.6	4.0
Employment	mil.	110.4	112.4	113.9	115.5	117.1	114.7	3.9
Agriculture	mil.	3.3	3.4	3.4	3.4	3.4	3.4	2.3
Nonagricult.	mil.	107.1	109.0	110.5	112.1	113.7	111.3	4.0
Unemployment rate	%	7.03	7.19	7.21	7.15	7.05	7.15	1.7

*Historical data (1) % change over previous year

the dollar will remain strong. Increasing quantities of raw materials, especially matellic ores, metals, and consumer products will be imported. Exports will also keep increasing but not enough to turn the foreign trade balance into black.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The outlook here is fairly good. The forecast is not changed except for fractional adjustments. By the last quarter of this year, the rate is calculated here to average 7.1 percent in terms of joblessness. That is just a bit lower than the 7.2 percent projected by Wharton Econometrics for that quarter. Viewed along side the average of 9.6 for 1983, it makes it seem good, indeed. As can be seen in Table 1.30, average unemployment for the year as a whole is set at 7.6 percent and is projected to edge down to an average of 7.0 for 1985.

The unemployment rate in March was the same as in February: 7.8 percent. After six month of declines, some leveling was expected. Still, there was a gain in employment, but that was balanced by a gain in the number of people seeking work. Civilian employment rose by about one-fourth million in March to 104.14 million.

There was a change in the estimate of the number of discouraged workers. In the last quarter of 1983, the Labor Department figured that 1.5 million people had given up trying to find a job after many months of attempts. That total was revised downward to 1.3 million for the first quarter of this year. It is likely that most of the gain in people seeking work came from this group as hopes were rekindled.

KEDI shares the view expressed by Allen Sinai of Lehman Brothers Kuhn Loeb Inc. that the lack of change in the jobless rate indicates growth is moving to a more sustainable rate. The view of Rudy Oswald, chief economist for AFL-CIO, that joblessness has not gone down fast enough is understandable.

The average workweek for nonfarm workers moved down just a bit in March. Overtime in manufacturing was at 3.4 hours per week as an average in March.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Single-family housing starts	mil.	1.069	1.284	1.238	1.163	1.082	1.192	11.5
Multi-family housing starts	mil.	.647	.681	.669	.618	.654	.655	1.4
Mobile home shipments	mil.	.301	.304	.317	.324	.302	.312	3.7
Permits authorized	mil.	1.596	1.671	1.711	1.701	1.684	1.692	6.0
1-family unit price, new**	tho.$	90.3	94.9	96.6	99.4	101.5	98.1	8.6
1-family unit price, exist.**	tho.$	82.5	86.6	88.9	91.4	92.1	89.8	8.9

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Single-family housing starts	mil.	1.192	.973	.982	.990	.886	.958	-19.6
Multi-family housing starts	mil.	.655	.640	.661	.630	.602	.633	-3.4
Mobile home shipments	mil.	.312	.274	.277	.279	.243	.268	-14.1
Permits authorized	mil.	1.692	1.551	1.614	1.617	1.481	1.566	-7.4
1-family unit price, new**	tho.$	98.1	104.7	107.2	107.4	108.6	107.0	9.1
1-family unit price, exist.**	tho.$	89.8	94.2	97.0	98.8	100.1	97.5	8.6

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Single-family housing starts	mil.	.958	.935	.957	.949	.918	.940	-1.9
Multi-family housing starts	mil.	.633	.589	.601	.611	.584	.596	-5.8
Mobile home shipments	mil.	.268	.239	.251	.264	.275	.257	-4.1
Permits authorized	mil.	1.566	1.362	1.382	1.406	1.359	1.377	-12.1
1-family unit price, new**	tho.$	107.0	109.6	112.1	114.4	116.9	113.3	5.9
1-family unit price, exist.**	tho.$	97.5	101.8	105.0	108.2	110.5	106.4	9.1

*Historical data (1) % change over previous year

1.41 HOUSING

(Table 1.41 on page 15)

It is welcome news that housing starts went down in March. KEDI does not anticipate any significant increase in April. The forecast is maintained. Housing starts are projected as averaging 1.9 million, seasonally adjusted during the second quarter and amounting to 1.8 million for the year.

KEDI shares the view of Martin Feldstein, President Reagan's chief economist, that the drop in starts in March balances the huge gains in the prior two months. The 26.6 percent decline should not be exaggerated in importance. After all, during the first quarter of this year starts were 15 percent ahead of the comparable quarter one year ago. Even March was above the year earlier total by 2.9 percent. Weather played a part as March was colder and wetter than usual (as if we needed to be reminded of that), and February had been a bit more mild than usual. Another factor was the concern about interest rates. A survey by the National Association of Home Builders in April showed a decline in sales expectations of builders for the next six months.

Housing activity was down the most in the Northeast in March as starts were 44 percent lower there than in February. Out West, there was only a decline of 9.3 percent.

Building permits were issued at a rate of 1.7 million in March, seasonally adjusted annual rate. Even though that was 12 percent below the rate set in February, it was almost 17 percent higher than the pace in March, 1983.

The forecast at this Institute shows there won't be any more giant leaps in housing as occured in the first months of this year. Starts are going to edge down in 1985 to the 1.6 million range and be closer to 1.5 million for 1986.

The average price of a new home reached $93,600 in early March. About a year ago, the average cost was $88,400.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.0	10.4	10.2	10.2	9.9	10.2	13.3
Domestic	mil.	6.7	8.2	7.8	7.8	7.3	7.8	16.0
Imported	mil.	2.3	2.3	2.4	2.4	2.6	2.4	6.7
Dealers inventories,n.s.a.	mil.	1.5	1.5	1.6	1.7	1.5	1.5	.0
Factory shipments	mil.	6.7	8.3	7.9	7.7	7.0	7.7	15.3
Light-duty truck sales	mil.	2.5	2.9	3.0	3.0	2.8	2.9	16.2

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	10.2	9.9	9.9	9.7	9.7	9.8	-4.0
Domestic	mil.	7.8	7.4	7.5	7.3	7.3	7.4	-5.0
Imported	mil.	2.4	2.5	2.4	2.4	2.4	2.4	.0
Dealers inventories,n.s.a.	mil.	1.5	1.6	1.7	1.5	1.5	1.5	.0
Factory shipments	mil.	7.7	7.5	7.4	7.2	7.1	7.3	-5.2
Light-duty truck sales	mil.	2.9	2.3	2.8	3.0	2.8	2.9	.0

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.8	9.5	9.7	9.6	9.8	9.7	-1.5
Domestic	mil.	7.4	7.1	7.4	7.2	7.3	7.3	-2.0
Imported	mil.	2.4	2.4	2.3	2.4	2.5	2.4	.0
Dealers inventories,n.s.a.	mil.	1.5	1.9	1.8	1.7	1.5	1.5	.0
Factory shipments	mil.	7.3	7.2	7.3	7.0	6.9	7.2	-1.4
Light-duty truck sales	mil.	2.9	2.7	2.8	2.7	2.6	2.7	-6.9

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*Historical data (1) % change over previous year

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast for car sales is somewhat increased due to stronger tnan anticipated sales in March and early April. Whereas total sales were projected at 10 million in the last Survey, this has been revised to 10.2 million for 1984. The outlook for 1985 and 1986 remains essentially the same. For 1985, total sales are calculated at 9.8 million, and 1986 will not be much different. As can be seen in Table 1.42, there are slight drops in quarterly average sales during the second half of this year and then declining a bit during the latter part of 1985.

Automakers are trying to avoid huge inventories and have a conservative production schedule for the second quarter. KEDI shares the view that the unusually strong sales in the first quarter were partly due to "pulling forward" some sales that would normally have taken place in the summer. Second quarter production is estimated to be somewhat lower than the first quarter total but about 18 percent above the like period of 1983.

Sales of domestic new cars jumped ahead by 26 percent in March from the year earlier total. In early April, such sales were up by 33.3 percent. The KEDI forecast for domestic car sales has been revised from 7.5 million to 7.8 million in this issue.

The interest rate on auto loans played a part in the production forecast of the industry. In some areas, the rate charged on car loans moved up in late March and in early April. A rate of 15.25 was cited for one Los Angeles bank. That rate was an exception. The average finance company charged 14.2 percent for an auto loan in February. During that month, the Federal Reserve Survey found the average bank charged 13.3 percent for such a loan. Early data for April indicate a slight increase. KEDI forecast data for this year show that quarterly averages of interest rates on auto loans will keep increasing in small increments. For the next year a leveling is expected and more significant declines are projected to take place not earlier than in 1987.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	298.5	302.4	318.7	322.6	330.6	318.6	6.7
Corpor.profits tax accruals	bil.$	60.4	68.8	72.8	77.1	80.0	74.7	23.6
Surplus/deficit	bil.$	-182.0	-184.1	-178.6	-176.1	-171.8	-177.7	-2.4
State and local governments:								
Income taxes	bil.$	110.5	118.9	121.4	125.8	128.3	123.6	11.8
Corpor.profits tax accruals	bil.$	19.5	19.7	21.0	22.5	23.8	21.8	11.5
Surplus/deficit	bil.$	51.4	61.3	62.6	65.7	67.8	64.4	25.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	318.6	343.0	360.1	363.2	368.6	358.7	12.6
Corpor.profits tax accruals	bil.$	74.7	83.1	85.1	86.4	86.6	85.3	14.2
Surplus/deficit	bil.$	-177.7	-167.4	-161.5	-159.8	-154.2	-160.8	-9.6
State and local governments:								
Income taxes	bil.$	123.6	132.1	134.7	137.2	139.8	136.0	10.0
Corpor.profits tax accruals	bil.$	21.8	24.6	26.8	27.3	28.2	26.7	22.9
Surplus/deficit	bil.$	64.4	69.7	72.8	74.1	75.1	72.9	13.3

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	358.7	372.4	374.3	376.1	378.7	375.4	4.6
Corpor.profits tax accruals	bil.$	85.3	88.1	87.9	89.1	90.2	88.8	4.1
Surplus/deficit	bil.$	-160.8	-150.2	-148.3	-145.8	-142.1	-146.6	-8.8
State and local governments:								
Income taxes	bil.$	136.0	140.7	141.5	142.2	142.7	141.8	4.3
Corpor.profits tax accruals	bil.$	26.7	29.3	29.5	30.0	30.6	29.9	11.7
Surplus/deficit	bil.$	72.9	77.0	77.9	78.4	79.1	78.1	7.1

*Historical data (1) % change over previous year

1.50 BUDGETS

(Table 1.50 on page 19)

The forecast is not altered. KEDI stands by the projection that federal budget deficits will keep on declining throughout the 1984-89 years. The data here are quite close to Administration data for this year and next year. However, for the calendar years of 1986-89, the forecast here is a bit more optimistic. KEDI calculates deficits at that time as being an average $12 billion smaller than the Administration.

A comparison of the projected federal deficits and state and local surpluses show the government role in absorbing financial funds continuing to decline. The forecast data indicate that there will not be a collision between private and government borrowing needs in the foreseeable future.

Government Deficits

(bil.$, calendar years)

Year	Federal	State and Local	Total
1983	-182.0	51.4	-130.6
1984	-177.7	64.4	-113.3
1985	-160.8	72.9	-87.9
1986	-146.6	78.1	-68.5
1987	-150.3	82.6	-67.7
1988	-148.6	84.3	-63.8
1989	-137.5	86.8	-50.7

The Reagan administration recently cut $6 billion off its estimates of the deficit in fiscal 1984. They now figure it will total $177.8 billion. The revision is attributed to tax receipts being a bit higher than anticipated due to strength of the recovery. Also cited were farm loans and unemployment compensation as not costing as much as had been estimated earlier.

There is no change in the forecast of state and local budgets.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2742.1	2924.6	2985.1	3032.7	3120.0	3015.6	10.0
Personal disposable income	bil.$	2335.6	2503.3	2545.0	2584.3	2661.1	2573.4	10.1
Compensation of employees	bil.$	1990.2	2113.0	2155.4	2119.2	2256.5	2161.0	8.5
Corporate after tax profits	bil.$	130.6	150.2	155.7	161.0	165.0	158.0	21.0
Personal saving	bil.$	113.6	153.3	152.6	155.3	158.9	155.0	36.5
Average weekly earnings	bil.$	354.6	369.0	372.5	378.8	387.0	376.8	6.3

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Personal income	bil.$	3015.6	3182.9	3238.3	3295.8	3324.8	3260.5	8.1
Personal disposable income	bil.$	2573.4	2707.8	2743.5	2795.4	2816.4	2765.8	7.5
Compensation of employees	bil.$	2161.0	2295.1	2323.1	2362.4	2376.5	2339.3	8.2
Corporate after tax profits	bil.$	158.0	169.8	173.0	175.4	174.8	173.3	9.6
Personal saving	bil.$	155.0	163.9	167.8	170.1	168.5	167.6	8.1
Average weekly earnings	bil.$	376.8	391.6	398.4	404.0	409.1	400.8	6.4

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Personal income	bil.$	3260.5	3365.0	3411.9	3486.6	3587.4	3462.7	6.2
Personal disposable income	bil.$	2765.8	2851.9	2896.1	2968.3	3066.0	2945.6	6.5
Compensation of employees	bil.$	2339.3	2432.1	2446.4	2486.1	2502.4	2466.8	5.4
Corporate after tax profits	bil.$	173.3	176.4	178.6	181.4	187.8	181.1	4.5
Personal saving	bil.$	167.6	169.2	165.3	170.1	173.4	169.5	1.1
Average weekly earnings	bil.$	400.8	412.4	416.9	420.2	425.1	418.7	4.5

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.60 on page 21)

Personal income expansion in the first quarter reflected the strong growth in the economy. Such income was up 3.2 percent at that time which would have been an annual rate of 13.2 percent. In March the rise slowed to a 0.5 percent rate which was the smallest rate of gain in seven months--an adjustment that was needed. The April total will reflect a scheduled decline of around 16 billion in payments to farmers from the payment-in-kind program run by the government.

It is a good sign that personal saving will go up. One factor here is that pent-up demand for cars and other durables has been largely satisfied. That means savings will be higher, and consumption expenditures will be lower. KEDI projects personal saving as going up by more than 30 percent in 1984 over the prior year to a total of $155 billion. During 1985, the forecast shows this category gaining by 8.1 percent to a total of $167.6 billion. This Institute obviously shares the view of Robert Wescott of Wharton Econometrics that there is a trend toward higher savings and somewhat lower consumption over the next two quarters. The higher rate of savings is also seen as helping to lessen the pressure on interest rates as it expands the funds available to finance borrowing by business and government.

The forecast for corporate profits is not changed. The picture is bright here. Such profits are calculated as going up 21 percent this year over last year to total $158 billion after taxes--somewhat more than the personal saving total, coincidentally. During 1985, corporate profits after taxes are projected 9.6 higher than in the current year as they reach a total of $173.3 billion.

For 1986 KEDI forecast shows a less encouraging increase in personal income and related aggregates. Personal income will go up by 6.2 percent, personal disposable income by 6.5 percent, and the wage component of personal income, the compensation of employees, by 5.4 percent only. These data reflect the general slowdown in economic expansion expected to take place at that time.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Currency and demand deposits,M1	bil.	507.8	529.9	541.6	548.8	555.3	543.9	7.1
Time deposits, adjusted,M2	bil.$	2111.9	2238.6	2290.5	2342.7	2390.1	2315.5	9.6
Consumer instal. credit	bil.$	387.9	402.4	408.9	414.5	421.2	421.2	8.6
Commerc. & indus. loans at banks	bil.$	413.1	417.2	420.8	426.2	430.8	430.8	6.3
Large denomination time dep.	bil.$	310.4	324.2	327.2	329.7	334.8	329.0	6.0
Mortgages at S&L Assns.	bil.$	492.8	498.3	508.7	516.9	526.8	526.8	6.9

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Currency and demand deposits,M1	bil.$	543.9	563.5	571.0	583.8	591.2	577.4	6.2
Time deposits, adjusted,M2	bil.$	2315.5	2443.8	2495.2	2542.3	2592.6	2518.5	8.9
Consumer instal. credit	bil.$	427.2	431.4	435.6	440.8	443.9	443.9	3.9
Commerc. & indus. loans at banks	bil.$	430.8	434.5	438.9	441.3	449.8	449.8	4.4
Large denomination time dep.	bil.$	329.0	335.6	339.2	342.1	349.7	341.7	3.8
Mortgages at S&L Assns.	bil.$	526.8	530.1	533.1	536.1	539.7	539.7	2.4

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Currency and demand deposits,M1	bil.$	577.4	596.7	601.8	615.5	622.8	609.2	5.5
Time deposits, adjusted,M2	bil.$	2518.5	2654.3	2716.8	2781.2	2867.1	2754.9	9.4
Consumer instal. credit	bil.$	443.9	446.5	454.1	459.2	465.7	465.7	4.9
Commerc. & indus. loans at banks	bil.$	449.8	450.7	455.6	659.8	463.6	463.6	3.1
Large denomination time dep.	bil.$	341.7	355.8	354.1	356.9	359.7	356.6	4.4
Mortgages at S&L Assns.	bil.$	539.7	542.1	545.8	548.9	554.7	554.7	2.8

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

The outlook for the money supply remains the same. The position here has been that Fed policy will remain tight. That is not changed either. However, there is no further significant tightening anticipated for this year. As is shown in Table 1.70, M1 is projected to expand by 7.0 percent this year while M2 moves up by 9.5 percent.

Economists that contend the decline in M1 in late March and early April coupled with a slowing in growth in the economy means interest rates going down in coming months are viewed here as way off base. A. Gary Shilling, an economist, looks to yields on long-term Treasury bonds to go down. KEDI does not share that view. The economy has not cooled enough to allow less rigid policy. It is still in a stage of robust growth.

There are indications that the economy is shifting gears away from the consumer oriented recovery toward a capital-outlays oriented recovery. The demand for funds to finance capital outlays will not allow the lowering of interest rates.

Lyle Gramley, a member of the Reserve Board, said the direction "of monetary policy is particularly crucial to the fight against inflation." (The Wall Street Journal, April 13, 1984, page 3.) KEDI heartily agrees and has maintained the position for over two years that concern over inflation will contribute to money supply expansion being kept at fairly low levels.

The forecast here for consumer installment credit was raised somewhat mainly due to the upwards revision of car sales and the related demand for loans to pay for the cars. Consumer installment credit will amount to $427.2 billion this year as opposed to a forecast of $418.7 in the last Survey.

The small upwards revision for commercial and industrial loans is attributable to a revision in the forecast of inventory changes.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.61	9.14	9.91	10.18	10.20	9.86	14.5
Prime rate	%	10.78	11.26	11.96	12.00	12.00	11.81	9.5
Conventional mortgage rate	%	13.43	13.61	13.86	14.05	13.62	13.79	2.7
Aaa corporate bonds rate	%	12.04	12.30	12.69	12.92	13.10	12.75	5.9
20 years Govt. bonds yield	%	11.34	12.04	12.41	12.46	12.94	12.46	9.9
Standard & Poor's 500 Average	1941-43 =100	160.41	163.14	161.20	160.69	162.35	161.35	.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	9.86	10.75	11.35	11.41	11.28	11.20	13.6
Prime rate	%	11.81	12.14	12.50	13.14	13.00	12.70	7.5
Conventional mortgage rate	%	13.79	13.69	13.71	13.74	13.80	13.74	-.4
Aaa corporate bonds rate	%	12.75	13.12	13.16	13.60	13.79	13.42	5.2
20 years Govt. bonds yield	%	12.46	12.98	13.11	13.16	13.32	13.14	5.5
Standard & Poor's 500 Average	1941-43 =100	161.85	157.11	158.41	156.23	152.17	155.98	-3.6

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	11.20	11.34	11.25	11.08	10.74	11.10	-2.0
Prime rate	%	12.70	13.00	12.58	12.20	12.00	12.45	-2.0
Conventional mortgage rate	%	13.74	13.75	13.62	13.41	13.08	13.47	-2.1
Aaa corporate bonds rate	%	13.42	13.34	13.51	13.31	13.01	13.42	.0
20 years Govt. bonds yield	%	13.14	13.58	13.71	13.69	13.58	13.64	3.8
Standard & Poor's 500 Average	1941-43 =100	155.98	151.36	153.21	156.48	162.76	155.95	-.1

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The forecast remains essentially the same. KEDI shares the view of Wayne Lyshi of Alliance Capital Management that while business borrowing goes on at a good pace, no fundamental turn in interest rates can take place. Mr. Yardeni of Prudential-Bache is on the mark in citing historical patterns that show rising credit demand in times of slower economic growth. In this area, again, the view of A. Gary Shilling is seen by KEDI and others as being way too optimistic in looking to declines in rates of interest. Richard B. Hoey, chief economist at A.G. Becher Paribas Inc. mentioned bond yields on long-term Treasury bonds "could" drop to under 11.5 by the end of the year whereas they are currently at 12.75. Do not expect that to happen.

Lacy Hunt of Carroll, McEntee & McGinley Inc. looks to interest rates moving up into 1985. That view is shared here. However, L.Hunt anticipates a prime rate of 13 percent by the end of the year, whereas KEDI expects it to be close to 12 percent.

As demand will remain strong for credit, interest rates simply cannot go down. The rise in inventories and the increasing demand for financing capital outlays will be a factor in upward pressure on rates.

Bonds Forecast data here show that bond yields will remain high this year and next year. It is unlikely that there would be any rallies in the bond market. If there are any at all, they will be short-lived. The forecast at this Institute shows the average yield on Barron's 10 highest grade bonds in 1984 will go up from the present level of 12 percent to around 12.4 percent by the end of the year and hover close to 12.5 during 1985. That is still better than the 13.8 percent experienced at the beginning of 1982 but much worse than the 10.4 rate of late 1983.

Stocks Essentially, no changes are forecast for this year and next year. Slight ups and downs are likely this year. During 1985 a gradual and slight declining trend is anticipated.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Disposable Personal Income in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.1, January 1984, Table 2.1 Personal Income and Its Disposition. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Disposable Income, bil. curr.$)

Actual figure: 2335.6

Forecaster(and page in source)	Date of Forecast	Forecast	% of Accuracy
Georgia State University, pg 17	11/82	2332.7	-.0
Manufacturers Hanover Trust, pg 22	12/82	2349.6	.6
Metropolitan Life Insurance Company, pg 24	12/1/82	2405.7	3.0
The Fidelity Bank, pg 25	12/8/82	2393.0	2.5
Citibank Economic Forecast Service, pg 26	12/9/82	2378.7	1.9
Chase Econometrics, pg 29	12/29/82	2347.5	.5
KEDI, Inc., pg 30	1/1/83	2312.3	-.9
The Equitable Life Assurance Society, pg 31	1/5/83	2345.7	.4
Standard & Poor's Corporation, pg 34	1/6/83	2349.4	.6
Morgan Guaranty Trust Company of New York,pg 35	1/7/83	2314.6	-.9

3.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

The March issue of this Survey contains technical data on the Kent Model that pertain to the model's three divisions and numbers of variables. The April issue contains data on forecast horizon, language used in the model's programs, and a description of the model's identity and technical equations. This May issue contains a description of the model's institutional and behavioral equations.

4.23 Institutional equations As characterized by Klein and Young (1980), institutional equations explain relationships determined by law or custom. For example: income tax rates for taxpayers in respective income brackets; Federal Reserve requirements on member banks to keep minimum percent of their deposits as reserves. In the Kent Model, institutional equations pertain to the system of taxation, banking, financial markets, regulations on wages and salaries, insurance, and retirement systems.

4.24 Behavioral equations In economic models, behavioral equations attempt to express the ways how economic units (individuals, firms, governmental units, or segments of the economy) react on events that occured in the past or may occur in the future. For example: an individual reacts on his payroll rise by increasing his consumption or saving; a decline in mortgage rates may result in an increase in housing starts; high international value of a country's currency may result in that country's surplus of imports over exports.

In economic modeling, methods that are currently used to develop such behavioral equations can be subdivided into two groups:

- historical methods
- modern methods

Historical methods rely on observations of past developments and attempt to utilize those relationships that existed in the past as a basis for predicting the future. Typical historical methods used to develop behavioral equations in economic models are those called regression methods. Many early economic models have used regression analysis to develop behavioral equations.

Recent experience with economic models has shown that regression equations, in many cases, have provided poor services. Economic models that had been

THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

relying on past experience failed to perform properly. Criticisms raised against methods of regression analysis have demonstrated that such analysis is:

(1) unable to discover what is essential in economic relationships, namely what is the cause and what is the effect. Methods of regression analysis cannot find causes of economic events, and, consequently, they cannot determine how economic units will react on events (causes) that will take place in the future, as demonstrated, for example, by Fisher Black (1982), Tucker (1976), and others.

(2) unable to provide a basis for forecasts of events that had not occurred before, for example how will consumers react in the presence of 10.8 percent unemployment--because such unemployment rate has not been experienced in the lifetime of models that used the regression analysis, as criticised by Thurow(1982) and others. Reliance on the past has been one of the main reasons of poor performance of economic models as discussed, for example, in Business Week (1981).

Inadequacies, failures, and shortcomings of regression analysis and statistical methods in general, when used in economic forecasting, have been discussed at many occasions. In depth studies of that subject are, for example, in materials of the Michigan Conference on Evaluation of Econometric Models (1980).

In the present version of the Kent Model no regression equations are used.

Modern methods do not regard historical observations as determinants of future events. Some of them have totally rejected a reliance on past events and have turned the forecast base into the future. Methods of exploratory mode (Tucker (1976), Myers (1977) and others), rational expectations (Sargent (1975), Lucas (1977) and others), and methods of futuristic assessments may serve as examples.

In the Kent Model, the main method used in developing behavioral equations is the exploratory mode of futuristic assessments. In this method, supply intentions of producers or sellers, and demand intentions of consumers or purchasers are projected into the future.

(Continued in the next issue)

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.),Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 3.00 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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This forecast uses the May 1, 1984, U.S. Department of Commerce second estimates of 1984:1 National Income and Product data. Also used is the May 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

0.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

0.01 EXECUTIVE SUMMARY

It is not logical to blame federal deficits for a recession expected by some. KEDI does not anticipate a recession in 1985 or 1986. Deficits do add to the demand side of the economy. The government putting money into the economy will not cause its ruin. REAL GROWTH There has not been much change in the economy. Industrial production, factory utilization rate, some orders, and building were up recently. During the second part of the year, expect some slowing. Look for growth of 5.5 percent this year over 1983. PRICES No leap in the inflation rate is looming out there. Some restraint at the bargaining table will mean wage settlements won't be inflationary. The strong dollar means import prices keeping pressure on U.S. makers to remain competitive. That cannot be done with hikes in prices. EMPLOYMENT AND LABOR The forecast is not changed. The number of employed continues to grow while the rate remains static due to more entering the labor force. HOUSING The forecast is barely changed. The industry will begin to level off soon. Sales softened in March and were not much changed in April. AUTOS The boom in this area is winding down. For 1984, the forecast is not changed: total sales gaining 13.3 percent this year over last year are projected. Car prices that take about one month's more pay now than they did a decade ago are one reason that temper the pace of sales for an average factory worker. BUDGETS It has been stated here for over two years that federal deficits reduction would be partly attributable to growth as tax receipts mount in recovery. It has also been maintained for that long that deficits would be trimmed to around $150 billion. INCOME There is no change in the outlook for corporate earnings and after-tax profits. Both are doing nicely. MONEY AND CREDIT The forecast of slow growth of the money supply in the rest of 1984 and in 1985 - 1986 is maintained. INTEREST RATES, YIELDS AND SECURITIES PRICES KEDI's view on the Fed's activities: Do not push the interest rates up any more. Sit down, relax, and wait and see for two months. Forecast of the stock market remains unchanged: The post-election decline will level off in the second half of 1985. The bonds' outlook still remains a bit cloudy.

0.02 OVERVIEW

KEDI stands by its general forecast. There is no recession on the horizon. The Administration looks to growth of 5 percent this year and 4 percent in 1985. Such percentages are viewed here as too low for the current year and way too high for the next year. The projections of the Business Council (200 chiefs of the largest companies in the nation) and the National Association of Business Economists are more in the range foreseen at this Institute through 1985. However, looking to 1986, KEDI is much more optimistic than the Business Economists as they anticipate a recession. A comparison is given:

Economic Growth over the Prior Year

	Business Council	Assoc. of Bus. Economists	KEDI
1984	5.6%	5.7%	5.5%
1985	3.1%	3.4%	2.7%
1986	Slow Growth	Recession	2.2%

As can be seen, KEDI is basically in accord with the Business Council. The 69 percent majority of the Business Economists are wrong about 1986. At least there is some hope for that group as the balance of the members expect the recovery to last through 1986 or beyond. It seems the majority blame the huge deficits generated in Washington for the recession they see coming starting by the end of next year. The red ink, according to them,will drive up interest rates to a point that will prevent most business people and consumers from borrowing.

Lets us deal with those issues. First, interest rates will not go up anywhere near the 21.5 percent, for example, which was the prime rate reached in the Carter-Mondale years. Expect the prime rate to be close to 13 percent in 1985. Such a rate cannot drive the country into reverse.

Secondly, both the Business Council and the Association of Business Economists believe federal deficits are the cause of the expected slowing of growth next year, and the latter cite them in their recession projection. Such a view is illogical. Why? There is a positive side to deficits. They DO GENERATE ADDITIONAL DEMAND. Just how could a recession take place if so much new income is to be generated by the federal budget? It could not take place according to calculations here.

KEDI FORECAST HIGHLIGHTS

TABLE 0.0

Indicator	Unit	1984	1986	1987	1988
Gross national product	bil.72$	1619.2	1696.1	1750.4	1843.2
	% change	5.5	2.2	3.2	5.3
Index of industrial production	1967=100	163.6	173.6	183.7	185.5
	% change	10.8	2.6	5.8	10.1
Capacity utilization	%	81.3	80.8	82.0	82.4
	% change	8.0	-1.0	1.5	.6
Unemployment rate	%	7.60	7.11	6.81	6.56
	% change	-22.9	1.0	-4.2	-3.7
Private housing starts	mil.units	1.832	1.524	1.679	1.973
	% change	6.8	-3.0	10.2	17.5
Car sales	mil.units	10.2	9.7	10.2	11.1
	% change	13.3	-1.5	5.1	8.9
Implicit GNP price deflator	1972=100	225.8	251.0	264.3	278.6
	% change	4.7	5.4	5.3	5.4
Consumer price index	1967=100	312.7	349.5	369.8	392.0
	% change	5.0	5.8	5.8	6.0
Producer price index (Finished goods)	1967=100	297.4	338.2	360.5	386.1
	% change	4.6	6.1	6.6	7.1
Federal deficit	bil.$	-168.2	-143.3	-147.0	-143.2
	% change	-7.6	-9.3	2.6	-2.5
Personal income	bil.$	3024.7	3523.5	3868.8	4282.8
	% change	10.3	7.0	9.8	10.7
Prime rate	%	12.12	13.08	13.73	12.99
	% change	12.4	1.1	5.0	-5.2
Mortgage rate	%	14.02	13.58	13.17	13.20
	% change	4.4	-5.0	-3.0	.06
Currency plus demand deposits	bil.$	540.9	596.8	632.0	671.2
	% change	6.9	5.1	5.9	6.2
Commercial and industrial loans	bil.$	438.7	464.2	483.2	503.9
	% change	6.2	2.8	4.1	4.3

Number in "% change" rows show percent changes over the previous year

OVERVIEW

The current federal deficit should be trimmed, but it is not at a dangerous level. It should be trimmed by approximately $150 billion over the next three years. That amount of trimming is within a range that is compatible with some growth.

A recession could take place if the red ink is cut more than $150 billion or even if the federal budget were balanced. Then, huge surpluses of state and local governments, foreign trade imbalance, and surpluses of the business sector would drive the economy backward. Too little income would be chasing too many goods.

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, assumptions No.3 and No.4 have been updated.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1987 period. In 1984 and 1985 some increases in interest rates are expected. Relaxation will take place in late 1986 and in 1987.
4. In 1984 a good harvest is assumed for this country, and low productio crops is expected in the U.S.S.R. and China. In 1985, the U.S. record an the U.S.S.R. and China's average crops will take place. In 1986 good crops at all main producing countries are anticipated.
5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%, Japan 2.6%.
6. No drastic changes in international relationships are anticipated.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

			1984					%
Indicator	Unit	1983*	1	2	3	4	1984	(1)
Gross national product	bil. 72$	1535.3	1606.0	1615.9	1623.3	1631.8	1619.2	5.5
Index of industrial production	1967=100	147.7	159.7	163.5	164.4	166.8	163.6	10.8
Unemployment rate	%	9.6	7.9	7.7	7.5	7.2	7.6	-22.9
Capacity utilization rate	%	75.2	80.4	81.9	81.3	81.4	81.3	8.0
Private housing starts	mil.	1.716	1.962	1.862	1.786	1.720	1.832	6.8
Car sales	mil.	9.0	10.4	10.2	10.2	9.9	10.2	13.3

			1985					%
Indicator	Unit	1984	1	2	3	4	1985	(1)
Gross national product	bil. 72$	1619.2	1644.6	1657.1	1664.2	1672.8	1660.2	2.7
Index of industrial production	1967=100	163.6	167.2	168.4	169.8	171.6	169.3	3.5
Unemployment rate	%	7.6	7.1	7.0	7.0	7.0	7.1	-7.4
Capacity utilization rate	%	81.3	81.0	81.8	81.9	81.6	81.6	.3
Private housing starts	mil.	1.832	1.607	1.627	1.615	1.480	1.582	-13.7
Car sales	mil.	10.2	9.9	9.9	9.7	9.7	9.8	-4.0

			1986					%
Indicator	Unit	1985	1	2	3	4	1986	(1)
Gross national product	bil. 72$	1660.2	1681.2	1689.9	1700.8	1712.5	1696.1	2.2
Index of industrial production	1967=100	169.3	171.3	171.5	173.0	178.7	173.6	2.6
Unemployment rate	%	7.1	7.1	7.1	7.1	7.0	7.1	.0
Capacity utilization rate	%	81.6	81.0	80.9	80.3	80.8	80.8	-1.0
Private housing starts	mil.	1.582	1.509	1.560	1.569	1.499	1.534	-3.0
Car sales	mil.	9.8	9.5	9.7	9.6	9.8	9.7	-1.5

*Historical data (1) % change over previous year

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the June 1984 KEDI forecast. Data show a general slowdown in 1985 and 1986 as a trough of the cycle. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years.

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

Indications point to second quarter growth being somewhat higher than had been expected here. The Commerce Department revised its estimate of first quarter growth from 8.3 to 8.8 percent. Certainly, that rate is excessive for sustained expansion. Slowing is needed. Recent developments are outlined.

1. Industrial production jumped ahead by 1.4 percent in April after it had eased a bit in March. (That month, the IIP was up 0.5 percent.) So far, there has been 17 straight months of gain in the factory output index. The Commerce Department chief economist attributed the inventory building category with its temporary surge as being mostly responsible for the jump. KEDI does not view the expansion rate here as attributable to just inventories. Fairly strong growth in the next few months is indicated by the advancement of business-equipment manufacturing, defense and space production, output of intermediate products, and durable goods. Business-equipment manufacturing was up 1.3 percent in April. Defense and space production gained 1.7 percent. The output of intermediate products increased by 1.4 percent. Durable goods showed the greatest strength in April as production rose 1.8 percent.

2. Factory orders gained rapidly in March. The 2.2 percent increase was the largest of this year and also exceeded the monthly changes of the last quarter of 1983. It also points to more growth ahead.

3. Machine tool orders moved up 3 percent in March. That represents a 66 percent gain over the very depressed figure of a year ago. The very strong growth here is another factor indicating overall growth continuing at a pace that is a bit too rapid in the next few months.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1535.3	1606.0	1615.9	1623.3	1631.8	1619.2	5.5
Personal cons. expenditures	bil. 72$	1011.4	1049.6	1059.5	1064.4	1072.5	1061.6	4.8
Gross private dom. investment	bil. 72$	219.0	276.1	272.9	273.8	265.6	272.1	25.2
Net exports	bil. 72$	11.3	-10.3	-11.6	-8.4	-6.5	-9.3	--
Federal govt. purchases	bil. 72$	117.8	113.6	116.7	117.4	118.6	116.6	-1.1
State and local purchases	bil. 72$	175.3	177.0	178.4	180.1	181.6	179.3	2.3

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1619.2	1644.6	1657.1	1664.2	1672.8	1660.2	2.7
Personal cons. expenditures	bil. 72$	1061.1	1083.9	1084.0	1085.9	1088.2	1085.3	2.4
Gross private dom. investment	bil. 72$	272.1	265.7	272.2	275.9	273.7	273.9	0.6
Net exports	bil. 72$	-9.3	-5.8	-4.2	-3.8	-2.1	-4.0	--
Federal govt. purchases	bil. 72$	116.6	120.1	121.9	122.8	124.9	122.4	5.0
State and local purchases	bil. 72$	179.3	182.7	183.2	185.4	187.1	184.6	3.0

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1660.2	1681.2	1689.9	1700.8	1712.5	1696.1	2.2
Personal cons. expenditures	bil. 72$	1085.3	1087.6	1088.7	1093.9	1108.5	1094.7	1.0
Gross private dom. investment	bil. 72$	273.9	279.4	285.0	286.7	281.4	283.1	3.4
Net exports	bil. 72$	-4.0	.3	1.2	.8	.7	.8	--
Federal govt. purchases	bil. 72$	122.4	125.9	127.2	128.6	130.1	128.0	4.5
State and local purchases	bil. 72$	184.6	188.6	190.2	192.4	193.2	191.1	3.5

*Historical data (1) % change over previous year

REAL GROWTH

4. The National Association of Purchasing Management's latest survey found the consensus was that the second half of this year would be better than the first half. About 80 percent of the members held such a view. The results of that survey were in opposition to that of many economists, including this one.

5. Factory use edged ahead again in April. For 17 months the rate has moved ahead or at least stayed the same.

6. Retail sales in April moved up from a seasonally adjusted $103.38 billion to $106.38 billion. Early reports for the first half of May show further increases.

7. Housing starts were strong in April. The reader is referred to Section 1.41. Some reports show a slowing in the housing industry. Still, the very exhausting pace of the first quarter means lessening would continue to represent rather vigorous growth.

8. Auto sales were again quite high despite some May declines. See Section 1.42.

Overall, developments show the economy is still expanding at a fast pace. KEDI now expects the tightening by the Fed will have an impact in the second part of this year when growth slows to a more long-lasting pace.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

Consumer prices increased an adjusted 0.5 percent in April. Producer prices did not go up at all. The stability in producer prices is a healthy sign as they had gone up one-half a percent in each of the prior two months.

There is no fear here of the fires of inflation being rekindled. The forecast is maintained. The year-to-year changes in the CPI and PPI are listed:

	CPI	PPI
1984	5.0%	5.4%
1985	5.6%	7.1%
1986	5.8%	6.1%

In KEDI's view, the following factors will contribute to the rather slow

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967= 100	297.3	306.6	309.9	315.1	319.5	312.7	5.0
Producer price index,n.s.a.**	1967= 100	284.7	290.8	293.1	298.7	306.9	297.4	4.6
Price deflators:								
GNP	1972= 100	215.6	220.8	223.8	225.9	232.6	225.8	4.7
Personal cons. expenditures	1972= 100	213.3	218.0	222.0	225.6	220.1	223.9	5.0
Gross private dom. investment	1972= 100	215.4	217.6	220.3	223.4	226.1	221.9	3.1
Federal purchases	1972= 100	233.6	240.2	237.3	242.2	246.2	241.4	3.3

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967= 100	312.7	324.2	328.4	332.3	336.9	330.5	5.6
Producer price index,n.s.a.**	1967= 100	297.4	310.1	316.7	321.9	327.4	319.0	7.1
Price deflators:								
GNP	1972= 100	225.8	234.0	236.1	239.1	243.7	238.3	5.5
Personal cons. expenditures	1972= 100	223.9	234.1	236.1	239.2	243.9	238.3	6.0
Gross private dom. investment	1972= 100	221.9	227.3	230.9	235.1	238.6	233.0	6.4
Federal purchases	1972= 100	241.4	247.7	249.9	253.7	255.3	251.7	4.3

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967= 100	330.5	342.3	346.9	351.3	357.1	349.5	5.8
Producer price index,n.s.a.**	1967= 100	319.0	332.5	336.0	338.7	345.6	338.2	6.1
Price deflators:								
GNP	1972= 100	238.3	245.8	248.2	252.6	257.4	251.0	5.4
Personal cons. expenditures	1972= 100	238.3	245.7	249.1	251.9	255.8	250.6	5.2
Gross private dom. investment	1972= 100	233.0	241.4	245.7	249.4	255.9	248.1	6.4
Federal purchases	1972= 100	251.7	257.4	259.4	261.6	262.6	260.3	3.4

*Historical data (1) % change over previous year **Finished goods

pace of inflation:

1. Wage settlements. In 1983, the average first-year wage increase for about 3 million workers was 2.6 percent. Granted some large unions such as the UAW are out to make up for concessions in this area due to high auto profits. Generally, though, KEDI does not expect average wage increases to be the cause of renewed sharp inflation. Average wage settlements in 1983 were 3.1 percent above the prior year. The forecast for this year and the next two years is as follows:

1984	+ 3.6%
1985	+ 4.5%
1986	+ 3.3%

Such rates do not point to a cost-push pressure on prices.

2. Import prices are seen exerting strong downward pressures on prices in this country. Look to the dollar remaining strong through the next two years. That is a check on inflation. U.S. manufacturing companies facing imports with relatively low prices would not be in a position to merrily bump up their charges. Competition would mean too great a loss of business.

3. Generally good harvest this year and over the next two years would keep agricultural prices from going up much.

As can be seen, KEDI does not project inflation of 8 or 8.5 percent for the end of 1985. That was forecast by Henry Korytowski of Citicorp.

1.21 NOMINAL GNP

(Table 1.22 on page 11)

A slight upwards revision of nominal GNP in years 1984-1985 was caused by the revision of forecast data for personal consumption expenditures. Data for the other components of GNP has remained essentially unchanged when compared to the data presented in the previous issues. As seen in Table 1.22 on the following page, the export-import imbalance will persist in the rest of this year and in the following years. The [illegible] other components of GNP, inclusive of a declining share of the government, will become more proportionate not earlier than in 1986.

TABLE 1.22 NOMINAL GNP

(Quarterly data sre seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3310.8	3541 6	3616.7	3667.2	3759.4	3646.2	10.1
Personal cons. expenditures	bil.$	2157.0	2287.3	2348.0	2372.4	2440.9	2362.2	9.6
Gross private dom. investment	bil.$	470.9	600.9	603.5	605.8	611.3	605.4	28.6
Net exports	bil.$	-7.1	-54.6	-53.2	-39.7	-31.4	-44.8	--
Federal purchases	bil.$	275.2	272.9	278.6	282.4	286.1	280.0	2.0
State and local purchases	bil.$	414.8	435.1	439.8	446.3	452.5	443.4	7.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3646.2	3853.4	3913.1	3979.6	4076.9	3955.7	8.5
Personal cons. expenditures	bil.$	2362.2	2504.1	2545.7	2583.2	2652.1	2571.4	8.9
Gross private dom. investment	bil.$	605.4	617.3	624.8	631.2	654.7	632.0	4.4
Net exports	bil.$	-44.8	-28.5	-25.7	-27.2	-25.2	-26.7	--
Federal purchases	bil.$	280.0	301.4	304.2	310.1	313.3	309.3	9.7
State and local purchases	bil.$	443.4	459.1	464.2	474.3	482.0	469.9	6.0

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Gross national product	bil.$	3955.7	4132.6	4195.0	4296 0	4407.6	4257.8	7.6
Personal cons. expenditures	bil.$	2571.4	2673.8	2714.7	2793.2	2885.8	2766.9	7.6
Gross private dom. investment	bil.$	632.0	669.2	681.5	688.7	697.3	684.2	8.3
Net exports	bil.$	-26.7	-19.9	-19.8	-18.8	-17.9	-19.1	--
Federal purchases	bil.$	309.3	321.2	324.4	330.4	335.1	327.8	6.7
State and local purchases	bil.$	469.9	488.3	494.3	502.5	507.2	498.1	6.0

*Historical data (1) % change over previous year

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

There is no change in the forecast. As to the average rate for the last quarter of this year, the 7.2 percent projected by KEDI is generally in the range of the majority of forecasters. For instance, Wharton Econometric Forecasting Associates looks to a jobless rate of 7.3 percent by the last quarter.

As is shown in Table 1.30, average joblessness for the year is forecast at 7.6 percent. During 1985, it will move down a bit.

The unemployment rate has been at 7.8 percent for three months. Expect it to edge down in the next few months. A survey by the National Federation of Independent Business showed 24 percent of small businesses planning to add workers during the second quarter.

The jobless rate in April reflected a strong growth in total employment, which was balanced by a jump in the number of women seeking jobs. A survey of households found that 269,000 more people were working in April than in March. A different survey of the business community found that 407,000 more workers were on the job in April than in March. Civilian employment rose to 104.4 million in April.

It was estimated that during April, 340,000 people joined the labor force, and most of these were women. Since January, there has been a gain of 722,000 adult women in the labor force. This has slowed the decline in the jobless rate. It is debated that women are taking work away from men. It is not likely that many of the jobs--low-level clerical or sales--that women take would be taken by men. This country is able to tolerate higher jobless levels because the number of two-paycheck families has grown. The loss of one job in a family where both had been working is not as devastating as when the one-and-only breadwinner no longer has a job.

The average workweek went up quite a bit: 0.4 hours were gained to reach a total of 35.6. The factory workweek jumped up by 0.6 hours to 41.2! Such high levels point to more employment in coming months. As to comparison, the Wharton School predicts payroll employment going up 4 percent this year and 4.4 percent in 1985. KEDI expects an increase of 3.8 percent this year and 3.7 percent in 1985.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.3
Civilian labor force	mil.	111.5	112.8	113.7	114.8	115.9	114.3	2.5
Employment	mil.	100.5	103.9	104.9	106.1	107.6	105.6	5.1
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	97.2	100.6	101.6	102.7	104.2	102.2	5.2
Unemployment rate	%	9.58	7.87	7.76	7.60	7.18	7.60	-22.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.3	117.0	118.0	119.4	120.7	118.8	4.0
Employment	mil.	105.6	108.7	109.7	111.0	112.3	110.4	4.5
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	102.2	105.4	106.4	107.7	108.9	107.1	4.7
Unemployment rate	%	7.60	7.12	7.04	7.01	6.99	7.04	-7.4

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	118.8	121.1	122.8	124.4	126.0	123.6	4.0
Employment	mil.	110.4	112.5	114.0	115.6	117.1	114.8	4.0
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagricult.	mil.	107.1	109.1	110.6	112.2	113.7	111.4	4.0
Unemployment rate	%	7.04	7.13	7.17	7.09	7.04	7.11	1.8

*Historical data (1) % change over previous year

1.41 HOUSING

(Table 1.41 on page 15)

The forecast is essentially the same. Anticipate that housing starts will decline during the second part of this year. In 1985, there will be more decline. The change in 1986 is projected to be small, and the following year will present some rebound. The percentage change in single-family housing starts is given:

Year-to-Year Change in Housing Starts

Single-Family, Percent	
1984	+9.8
1985	-19.0
1986	-1.7
Multifamily, Percent	
1984	+1.8
1985	-4.0
1986	-5.0

The change in multifamily starts this year and the next is not large when compared to the change in single-family starts.

KEDI agrees with Kevin Villani of the Federal Home Loan Mortgage Corp. The housing boom has reached its peak. Indications of the slowing already appear. Sales of new single-family houses were off an adjusted 4.9 percent during March. April sales are likely to be flat in comparison. Also, sales of existing homes had gone up 4.1 percent in March but were hardly changed in April according to preliminary estimates.

Current mortgage rates for a typical home buyer were between 14 and 14.5 percent for a conventional mortgage in May. That represents a gain of a full percentage since the middle of February.

The Census Bureau reported that the portion of citizens owning their own homes went down last year for the first time in 20 years. Whereas 65.6 percent of households owned their homes in [illegible] the portion in 1983 was at 64.6. The drop is not due to any lessening of desire to own a home but to costs and mortgage rates as related to average family earnings. The median price of a new house in March was $78,700. The average sales price was $96,600.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Single-family housing starts	mil.	1.069	1.277	1.189	1.158	1.073	1.174	9.8
Multifamily housing starts	mil.	.647	.685	.673	.628	.647	.658	2.0
Mobile home shipments	mil.	.288	.304	.317	.320	.302	.311	7.9
Permits authorized	mil.	1.596	1.809	1.708	1.694	1.635	1.712	7.2
1-family unit price, new**	tho.$	89.9	94.7	96.5	98.7	100.3	97.6	8.5
1-family unit price, exist.**	tho.$	82.5	86.5	88.7	91.5	92.2	89.7	8.8

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Single-family housing starts	mil.	1.174	.969	.975	.987	.872	.951	-19.0
Multifamily housing starts	mil.	.858	.638	.652	.628	.608	.631	-4.0
Mobile home shipments	mil.	.311	.278	.280	.285	.234	.269	-13.4
Permits authorized	mil.	1.712	1.506	1.586	1.540	1.405	1.509	-11.8
1-family unit price,new**	tho.$	97.6	104.8	105.9	107.6	108.3	106.6	9.3
1-family unit price, exist.**	tho.$	89.7	94.3	97.3	98.9	100.9	97.9	9.1

Indicator	Unit	1985	1986 1	1986 2	1986 3	1986 4	1986	% (1)
Single-family housing starts	mil.	.951	.928	.953	.946	.911	.934	-1.7
Multifamily housing starts	mil.	.631	.581	.607	.623	.588	.600	-5.0
Mobile home shipments	mil.	.269	.232	.250	.258	.270	.252	-6.2
Permits authorized	mil.	1.509	1.307	1.409	1.437	1.528	1.438	-5.1
1-family unit price, new**	tho.$	106.6	109.2	111.8	114.9	117.3	113.3	6.3
1-family unit price, exist.**	tho.$	97.9	101.9	104.7	108.0	110.2	106.2	8.5

*Historical data (1) % change over previous year ** Average

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast is not changed. The peak months are coming to an end. There will be leveling throughout the rest of the year and some decline in the next two years.

Sales remained strong through mid-May. The selling rate at that time was 21.8 percent ahead of the year earlier. It was also the best rate in six years. Among the Big Three, GM sales were up over 27 percent to almost 140,000 autos sold in the eight selling days of the period. Ford gained 20 percent to over 50,000 cars, and Chrysler sales moved ahead 10 percent as about 27,000 sales were recorded.

KEDI calculates that total sales for this year will be up 13.3 percent to 10.2 million. In 1985, look to a total of 9.8 million for a 4 percent decline from this year's pace. Sales will be about the same in 1986 as they are forecast to be next year.

Automakers are starting to plan ahead in cutting capacity. The relationship between income and car costs--buying and maintaining--has been one of a growing gap. Many in the auto industry see the real boom days as over. For instance, in 1973, the average factory worker put in 28 weeks to pay for a new car. In 1983, that person would have to work 38 weeks to afford that typical new car. Even though sales expected this year total over 10 million including imports, that is below the 1973 record high of 11.4 million.

Since 1979, median family income has gone up about 25 percent. During that time, the average auto price jumped ahead by 53 percent to $10,530. There are new products on the market competing for the consumer dollar such as video records and personal computers. Buying one or both may mean hanging on to the old car longer. Variable rate mortgages mean the individual is likely more aware of interest rates. If rates are seen as going up, the car purchase may be put off or scaled down to a used car.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.0	10.4	10.2	10.2	9.9	10.2	13.3
Domestic	mil.	6.7	8.2	7.8	7.8	7.3	7.8	16.0
Imported	mil.	2.3	2.3	2.4	2.4	2.6	2.4	6.7
Dealers inventories, n.s.a.	mil.	1.5	1.5	1.6	1.7	1.5	1.5	.0
Factory shipments	mil.	6.7	8.3	7.9	7.7	7.0	7.7	15.3
Light-duty truck sales	mil.	2.5	2.9	3.0	3.0	2.8	2.9	16.2

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	10.2	9.9	9.9	9.7	9.7	9.8	-4.0
Domestic	mil.	7.8	7.4	7.5	7.3	7.3	7.4	-5.0
Imported	mil.	2.4	2.5	2.4	2.4	2.4	2.4	.0
Dealers inventories, n.s.a.	mil.	1.5	1.6	1.7	1.5	1.5	1.5	.0
Factory shipments	mil.	7.7	7.5	7.4	7.2	7.1	7.3	-5.2
Light-duty truck sales	mil.	2.9	2.3	2.8	3.0	2.8	2.9	.0

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.8	9.5	9.7	9.6	9.8	9.7	-1.5
Domestic	mil.	7.4	7.1	7.4	7.2	7.3	7.3	-2.0
Imported	mil.	2.4	2.4	2.3	2.4	2.5	2.4	.0
Dealers inventories, n.s.a.	mil.	1.5	1.9	1.8	1.7	1.5	1.5	.0
Factory shipments	mil.	7.3	7.2	7.3	7.0	6.9	7.2	-1.4
Light-duty truck sales	mil.	2.9	2.7	2.8	2.7	2.6	2.7	-6.9

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*Historical data (1) % change over previous year

1.50 BUDGETS

(Table 1.50 on page 19)

The Senate approved deficit reduction to the tune of $144 billion over three years. Part of that package was a tax increase of $48 billion. The House approved a different plan that would cut the deficit by $182 billion over three years. A compromise is anticipated in early June. Stay tuned.

The deficit for the first calendar quarter of this year has been estimated at $170.9 billion. That would be quite a bit below the $180-190 billion many economists projected. What is revealed here is that red-ink totals can be smaller in upcoming quarters than the majority of economists have been expecting. That does support the projection here of declining federal deficits over the next few years. KEDI calculates the deficit moving down by 7.6 percent this calendar year to roughly $168 billion. For calendar 1985, the total projected is a negative $158 billion. In 1986, a decline of around 9 percent to roughly $143 billion is forecast. (See Table 1.50.)

The deficit has been going down without much fanfare. The current fiscal year started last October. Through February, debt was 14 billion less than in the same period of the 1983 fiscal year. (Every little bit counts.) It has been stated here for some time, that the gains in income from the growth of the economy to the government would lead to lower deficits. In fact, KEDI has been saying for two years that some spending cuts, tax increases when recovery was well under way, and the added revenue recovery brings would lead to red-ink totals in the $150 billion range. KEDI OBVIOUSLY AGREES HEARTILY WITH ROBERT L. MARKS of Siff Oakley Marks in his recently published view of an average deficit of $150 billion in the next three years. (Louis Rukeyser column, May 12, Akron Beacon Journal, May 12, 1984 page B6).

There are no essential changes in the forecast for state and local budgets.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	298.5	302.5	318.9	323.1	331.8	319.1	6.9
Corpor.profits tax accruals	bil.$	60.4	72.0	74.9	78.6	80.9	76.6	26.8
Surplus/deficit	bil.$	-182.0	-170.9	-167.5	-168.8	-165.4	-168.2	-7.6
State and local governments:								
Income taxes	bil.$	110.5	118.9	121.6	126.0	128.9	123.9	12.0
Corpor.profits tax accruals	bil.$	19.5	20.1	21.8	22.7	24.6	22.3	34.2
Surplus/deficit	bil.$	51.4	60.9	62.5	65.3	67.1	64.0	24.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	319.1	343.2	352.6	363.1	368.1	356.8	11.8
Corpor.profits tax accruals	bil.$	76.6	83.4	85.6	86.7	88.2	86.0	12.2
Surplus/deficit	bil.$	-168.2	-162.6	-160.7	-157.2	-151.3	-158.0	-6.1
State and local governments:								
Income taxes	bil.$	123.9	132.4	135.8	139.1	141.2	137.1	10.7
Corpor.profits tax accruals	bil.$	22.3	25.2	27.4	29.1	30.7	28.1	26.2
Surplus/deficit	bil.$	64.0	69.4	72.1	73.8	74.9	72.6	13.4

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	356.8	373.9	376.1	377.2	380.3	376.9	5.6
Corpor.profits tax accruals	bil.$	86.0	88.6	88.4	89.1	90.4	89.1	3.7
Surplus/deficit	bil.$	-158.0	-147.6	-145.2	-140.1	-140.3	-143.3	-9.3
State and local governments:								
Income taxes	bil.$	137.1	142.6	143.1	144.3	146.1	144.0	5.0
Corpor.profits tax accruals	bil.$	28.1	31.2	31.9	32.0	32.8	32.0	13.8
Surplus/deficit	bil.$	72.6	76.1	77.4	78.2	79.0	77.7	7.1

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.60 on page 21)

There is no change in the forecast of corporate profits. Things are just fine here. Actual estimates of after-tax profits released by the government in late May matched with the forecast here that has been maintained for months. It is a bright picture. Such profits will go up 21 percent this year over last year. In 1985, the increase is calculated at 9.6 percent. Even, the slowdown of the economy in 1986 will still leave profits 4.5 percent above the prior year.

The following table presents a comparison of the net income in the first quarter of 1984 with the expected net income formation for the first quarter of 1985 in selected industries. These data are KEDI data. Compared to data compiled by the Wall Street Journal (May 7, 1984, pg. 20). KEDI data are slightly different for selected concerns as data here pertain to industries. In general, figures here are lower than WSJ data.

Net Income of Selected Industries

(First quarters; Percent changes)

	1984:1 over 1983:1	1985:1 over 1984:1
Aerospace	+18	+16
Automobiles	+230	+35
Building Materials	+146	+28
Retail Stores	+16	+12
Chemicals	+60	+64
Electronics	+35	+48
Food Products	+182	+32
Mining	+52	+20
Nonferrous Metals	+41	+26
Petroleum Products	+34	+42
Rubber	+137	+26
Textiles	+53	+14
Machine Tools	+106	+54
Railroads	+104	+32

Forecast of Personal Income and components remains essentially unchanged. Forecast data here follow the expected general trend of the economy: robust gains this year, some slowing in the next year, leveling off in the first half of 1986, and more significant increases in the latter part of that year.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Personal income	bil.$	2742.1	2925.4	3008.4	3043.0	3122.1	3024.7	10.3
Personal disposable income	bil.$	2335.6	2504.0	2567.9	2593.9	2561.4	2581.8	10.5
Compensation of employees	bil.$	1990.2	2113.4	2137.2	2124.5	2261.7	2159.2	8.5
Corporate after tax profits	bil.$	130.6	148.5	155.9	162.3	166.1	158.2	21.1
Personal saving	bil.$	113.6	146.3	148.9	150.2	148.7	148.5	30.7
Average weekly earnings	$	354.6	369.0	372.6	278.8	384.7	376.3	6.1

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Personal income	bil.$	3024.7	3204.9	3262.6	3315.9	3394.5	3294.5	8.9
Personal disposable income	bil.$	2581.8	2729.3	2774.1	2813.7	2885.2	2799.8	8.4
Compensation of employees	bil.$	2159.2	2300.2	2326.7	2367.5	2381.4	2344.0	8.6
Corporate after tax profits	bil.$	158.2	170.5	172.9	175.1	174.9	173.3	9.6
Personal saving	bil.$	148.5	152.6	154.8	156.2	158.4	155.5	4.7
Average weekly earnings	$	376.3	390.6	397.8	403.2	408.7	400.1	6.3

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Personal income	bil.$	3294.5	3422.2	3467.6	3551.7	3652.7	3523.4	7.0
Personal disposable income	bil.$	2799.8	2905.7	2948.7	3030.2	3126.3	3002.7	7.2
Compensation of employees	bil.$	2344.0	2434.5	2447.1	2483.2	2503.0	2467.0	5.2
Corporate after tax profits	bil.$	173.3	176.3	178.5	181.2	188.2	181.1	4.5
Personal saving	bil.$	155.5	156.7	158.1	160.2	162.4	159.4	2.5
Average weekly earnings	$	400.1	411.6	416.2	420.1	425.3	418.3	4.5

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

There is hardly any change in forecast data. Assumptions concerning Federal Reserve policy are the same. Policy is expected to remain tight. There has not been any real cooling of the economy. Without that, no relaxation of policy can take place. Inflation is not something that the Federal Reserve can ignore. Keeping money supply growth within fairly low limits is one tool the Fed can and should use to keep price gains at low levels. Paul Volcker is not alone in his desire for a recovery that lasts and includes moderation in any price increases.

In 1985, look to a more restrictive policy that should last to about the middle of 1986. After that, some relaxation is anticipated here.

Forecast data on consumer installment credit point to a large rise this year and slowing in 1985: less new loans on automobiles, household appliances, and other consumer durables are expected. Commercial and industrial loans will also expand less rapidly when compared to their increases this year. Resumption of a rapid growth of loans to businesses will take place not earlier than in late 1986. It is anticipated that at that time, businesses will be borrowing more heavily in expectation of a vigorous growth of demand in 1987 and the following year.

Forecast data for mortgages follow a similar trend to that of consumer credit and business loans. The lowest gains in mortgage credit are projected for next year following the expected declines in home building. Calculations of the flow of funds to financial markets is favorable. In Table 1.70 the data for time deposits and large denominations of CD's show steady, healthy increases in the 1985-1986 period. Projections of this Institute show that financial markets will be supplied with enough long-term funds to keep the prices of long-term financial instruments from any dramatic declines.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1983*			1984		1984	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	507.8	530.8	536.8	544.2	551.7	540.9	7.0
Time deposits, adjusted,M2	bil.$	2111.9	2230.7	2280.6	2331.4	2381.2	2306.0	9.2
Consumer instal. credit	bil.$	387.9	402.1	408.7	414.3	420.8	420.8	8.5
Commerc. & indus. loans at banks	bil.$	413.0	418.9	422.6	429.4	438.7	438.7	6.2
Large denomination time dep.	bil.$	310.4	337.4	350.8	343.9	349.6	345.4	11.3
Mortgages at S&L Assns.	bil.$	493.4	498.9	509.2	517.6	526.4	526.4	6.7

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	540.9	558.3	563.7	570.4	578.3	567.7	5.0
Time deposits, adjusted,M2	bil.$	2306.0	2431.5	2482.6	2529.7	2579.4	2505.8	8.6
Consumer instal. credit	bil.$	420.8	431.3	434.6	440.5	442.3	442.3	5.1
Commerc. & indus. loans at banks	bil.$	438.7	440.4	443.5	445.2	451.7	451.7	3.0
Large denomination time dep.	bil.$	345.4	351.1	355.4	358.2	365.4	358.5	3.8
Mortgages at S&L Assns.	bil.$	526.4	529.8	532.1	536.6	541.2	541.2	2.8

Indicator	Unit	1985			1986		1986	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	567.7	585.4	590.2	600.7	610.9	596.8	5.1
Time deposits, adjusted,M2	bil.$	2505.8	2641.7	2704.3	2768.5	2855.2	2742.4	9.4
Consumer instal. credit	bil.$	442.3	448.7	452.0	453.3	456.2	456.2	3.0
Commerc. & indus. loans at banks	bil.$	451.7	452.9	454.7	458.9	464.2	464.2	2.8
Large denomination time dep.	bil.$	358.5	371.2	370.8	373.9	377.3	374.1	4.4
Mortgages at S&L Assns.	bil.$	541.2	543.6	547.2	552.6	558.9	558.9	3.3

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The forecast of interest rates, yields, and securities prices has not been changed significantly when compared to the previous forecast. KEDI maintains its assumptions repeatedly stated here for about two years: Tight monetary and credit policies will prevail this year, the next year, and for most of 1986. It is anticipated that the Fed's policy will be kept more consistent and without gyrations typical of the 1976 - 1980 election cycle. The forecast shows that interest rates will be kept at high levels, and that there will be not a return to single digit interest rates in the foreseeable future.

Internationally, interest rates have to be higher in the U.S. than in other countries to keep the value of the dollar strong and to keep the inflow of foreign capital to finance part of domestic needs. Calculations show that a lowering of the value of dollars on international markets will have a negative effect on the domestic economy: Under present conditions and conditions that will prevail for the next few years, the decrease of the dollar rate of exchange could only help exports temporarily.

A long-lasting effect of such a move would be the increase of price of imported commodities, higher costs, loss of pressure on domestic producers to keep prices competitive. The result of all of that: a significant rise in the inflation rate and possible substantial decline of the inflow of foreign funds. On the other hand, high interest rates and their possible increases in the next year do not represent any great danger for the recovery. The U.S. economy has already accomodated to high interest rates. The expected gains in interest rates will be within tolerable limits: the increase of the prime rate to 13.5-14 percent will certainly not destroy the recovery, and it will not be the Carter-Mondale's 21.5 percent!

As to the present situation: KEDI's analysis shows that the Federal Reserve should not proceed with further increases of interest rates. It should wait for about two months, and then only if essential, proceed with small increases. As to the bonds market, expect it to recuperate not earlier than next year when significantly more long-term funds flow into financial markets when compared to the present flow. The forecast data on the stock market has not been essentially changed.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.61	9.17	10.09	10.21	10.24	9.93	15.3
Prime rate	%	10.70	11.08	12.17	12.50	12.74	12.12	12.4
Conventional mortgage rate	%	13.43	13.57	13.98	14.24	14.27	14.02	4.4
Aaa corporate bonds rate	%	12.04	12.28	12.86	12.98	13.16	12.82	6.5
20 years Govt. bonds yield	%	11.34	12.09	12.47	12.58	13.11	12.56	10.8
Standard & Poor's 500 Average	1941-43 =100	160.41	160.51	160.14	159.68	161.48	160.45	.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	9.93	10.68	11.19	11.37	11.31	11.14	14.8
Prime rate	%	12.12	12.85	12.90	13.12	13.16	12.94	6.3
Conventional mortgage rate	%	14.02	14.36	14.43	14.25	14.15	14.30	2.0
Aaa corporate bonds rate	%	12.82	13.21	13.24	13.58	13.76	13.45	4.9
20 years Govt. bonds yield	%	12.56	13.31	13.40	13.45	13.58	13.44	7.0
Standard & Poor's 500 Average	1941-43 =100	160.45	157.24	158.16	156.11	153.24	156.20	-2.6

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	11.14	11.35	11.29	11.16	10.81	11.15	.1
Prime rate	%	12.94	13.50	13.42	13.02	12.38	13.08	1.1
Conventional mortgage rate	%	14.30	13.97	13.81	13.42	13.11	13.58	-5.0
Aaa corporate bonds rate	%	13.45	13.79	13.64	13.27	13.08	13.45	.0
20 years Govt. bonds yield	%	13.44	13.69	13.74	13.58	13.32	13.58	1.0
Standard & Poor's 500 Average	1941-43 =100	156.20	152.01	149.65	151.33	158.92	152.96	-2.1

***Historical data (1) % change over previous year**

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Unemployment rate in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.4 April 1984, Blue Pages. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Unemployment rate, % of civilian labor force)

Actual figure: 7.6

Forecaster(and page in source)	Date of Forecast	Forecast	% of Accuracy
Albert T. Sommers, The Conference Board, pg 9	11/17/82	9.8	2.1
National Securities and Research Corp., pg 9	11/18/82	9.2	4.2
Calvin C. Myers, The Merchant National Bank of Aurora, pg 10	12/82	9.8	2.1
U.S. Trust Company of New York, pg 11	12/82	10.4	8.3
Walter D. Fackler, University of Chocago,pg 13	12/8/82	10.0	4.2
United Business Service, pg 13	12/13/82	10.0	4.2
J. A. Livingston, pg 15	12/26/82	10.1	5.2
U.S. News and World Report, pg 15	12/27/82	9.5	-1.0
First Interstate Bank of California, pg 16	10/82	9.5	-1.0
Georgia State University, pg 17	11/82	10.4	8.3
Peter L. Bernstein, pg 18	11/2/82	9.8	2.1
Chemical Bank, pg 20	11/9/82	10.1	5.2
American Statistical Association and National Bureau of Economic Research, pg 21	12/82	9.9	3.1
Manufacturers Hanover Trust, pg 22	12/82	10.1	5.2
UCLA, pg 23	12/82	10.9	13.5
Metropolitan Life Insurance Company, pg 24	12/1/82	10.0	4.2
The Fidelity Bank, pg 25	12/8/82	10.2	6.3
Citibank Economic Forecasting Service, pg 26	12/9/82	9.9	3.1
Alex A. Burkholder, pg 27	12/15/82	10.7	11.5
Data Resources, Inc., pg 28	12/24/82	10.7	11.5
Chase Econometrics, pg 29	12/29/82	10.3	7.3
K.E.D.I., Inc., pg 30	1/1/83	9.9	3.1
The Equitable Life Assurance Society, pg 31	1/5/83	10.5	9.4
Harris Bank, pg 32	1/5/83	10.1	5.2
The First National Bank of Chicago, pg 23	1/6/83	10.0	4.2
Standard & Poor's Corporation, pg 34	1/6/83	10.4	8.3
Morgan Guaranty Trust Co., pg 35	1/7/83	11.2	16.7

3.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

The March issue of this Survey contains technical data on the Kent Model that pertain to the Model's three divisions and numbers of variables. The April issue has the data on forecast horizon, language used in the model's programs, and description of the model's identity and technical equations. The May issue deals with the model's institutional and behavioral equations, and outlines the difference between forecasting methods based on historical data and those based on expectations of future developments. This issue discusses the method of futuristic assessments used in the Kent Model as the key method for developing the forecasts.

The method of futuristic assessments

The method as used in the Kent Economic Forecasting System has two phases. In the first phase, expectations of purchases, sales, production, consumption, and other factors with regard to prices and quantities are formulated independently of each other. In the second phase, these differing expectations are brought together by a procedure that simulates how all these factors interact and presents, as the result, a consistent forecast in which these factors are weighted against each other and balanced.

The method provides answers of "what if" questions such as: How would the level of production, imports, exports, and domestic purchases and sales look if the price of a commodity increases or decreases by a certain percentage; how a change in the demand would affect production, prices, and inventories, and others.

In the Kent Economic Forecasting System the method is applicable to any commodity and also to aggregative data.

Expectations of individuals, firms, governmental and other economic units necessarily differ. The price a house the builder would like to charge differs from the price a prospective home buyer intends to pay. In general, expectations of home builders concerning the number of houses they would like to build and the price they would like to charge are certainly different when compared to the number of houses future homeowners would like to buy and the price they would be willing to pay. Sales expectations of a marketing manager may differ from plans a production manager would like to realize, and are certainly different from intentions of purchasers. In the method of futuristic assessments these differing intentions represent a judgemental element assesed by using questionnaires, opinion polls, inquiries, or forecaster's own evaluations.

The mechanical element appears in the second phase. A system of equations enables one to simulate interactions among these differing projections, i.e. interactions of demand, supply, production, consumption, quantities, prices, and other factors. A synthetic, comprehensive forecast is developed in which all these factors are incorporated.

A typical feature of this method is that it has abandoned history as a sole determinant of the future. It saves from embarrassments and vagaries of regression analysis and statistical methods in general when such methods are used in economics to forecast the future. This method puts the basis of forecasting where it belongs: to the future and not to the past. (It does not make sense to drive a car without being able to see out the front window and only have knowledge about the road behind from the rear mirror.) History has its place in the method of futuristic assessments, but not as a determinant. It is a factor that contributes to the formation of expectations in the first, judgemental phase.

The synthetic approach used in the method of futuristic assessments is demonstrated on a simplified format in which the forecasts are usually presented:

Commodity__________________________ Period Covered__________________________

Units______________________________ Date of Forecast________________________

	USES	SOURCES	
	Sales	Initial Inventory at	
_____	- Domestic	- Producers	_____
_____	- Exports	- Consumers	_____
_____	Consumption	Purchases	
	Ending Inventory at	- Domestic	_____
_____	- Producers	- Imports	_____
_____	- Consumers	Production	_____
________	Total	Total	________

Prices: Domestic Price or Price Deflator_____
Import Price or Price Deflator _____
Export Price or Price Deflator _____

Such demand-supply balance is used for commodities, in units such as lbs, tons, yards, etc. In the aggregative form constant values are used for quantities, and price deflators for prices.

(Continued)

5.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 5.00 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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President: Dr. Vladimir J. Simunek

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This forecast uses the June 20, 1984, U.S. Department of Commerce third estimates of 1984:1 National Income and Product data. Also used is the June 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

0.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

0.01 EXECUTIVE SUMMARY

Congressional actions have added credence to the view that has been held here for over two years: namely, the time to cut the federal deficit would be when recovery was well under way, and it is firm. REAL GROWTH Second quarter growth of 5.7 percent was, again, too fast (preliminary estimate). The economy has not begun to slow enough as evidenced by the very high capacity-use rate in some industries. Some reduction of the pace is expected during the rest of the year. Look to growth this year of 6.1 percent. PRICES Confirmation of the forecast here of moderate inflation was seen in the May change in the CPI of just 0.2 percent. Some pillars of the economic community (at opposite ends of it) now expect inflation of 9-10 percent around the end of the year. IT WILL NOT BE THAT HIGH. KEDI projects inflation of less than 4 percent this year and 5.4 percent in 1985. EMPLOYMENT AND LABOR Average joblessness for this year is now set at 7.3 percent due to the sharp drop in May and the another expected drop in June with the third quarter rate forecast at 7.0 and the last quarter at 6.9. HOUSING The slower pace has become more firm with starts off 10.5 percent and sales off 4.4 percent in May. The gain of 4 percent in the average price of a new home is not the start of a spiral. AUTOMOBILES The forecast is slightly increased with total sales now of 10.5 million for 1984. The strike impact in this industry will not be as great as some expect. BUDGETS The forecast is not changed. KEDI views spending cuts as more efficient than tax hikes for federal deficit reduction but realizes political reality includes raising taxes. INCOME The forecast now shows personal income gaining 10.8 percent this year. Smile while anticipating corporate profits zooming ahead by 22.2 percent over last year. Business needs for outside funds are not seen as direct competition for the government's need to borrow. MONEY AND CREDIT Tightening measures have and will be continued to be needed, but any further adjustments are not seen as being major. INTEREST RATES, YIELDS, AND SECURITIES PRICES Frankly, it is hard to tell with precision what will happen next, but KEDI does not see any more significant hikes in interest rates as likely. In 1985 the stock market will show only mild fluctuations. The forecast of the bond market remains cautious for the rest of this year and for 1985.

0.02 OVERVIEW

Federal Deficits

At a mid-June appearance before the subcommittee of the Senate Banking Committee, Mr. Volcker made a promise. He said he would give up smoking cigars once the deficit went away. (Talk about a sure thing -- continued smoking by Volcker.)

As was stated in the February issue (KEDI Economic Survey, page 2, paragraph 4), as long as there are surpluses at the state and local levels, federal deficits have to exist. A balanced federal budget would be a disaster for the economy while such surpluses continue. KEDI estimates state and local surpluses amounting to around $70-80 billion in 1987 and 1988, for instance. As recovery continues, surpluses move up. That view is maintained here.

It has been stated repeatedly that the time to whittle away at the federal deficit is when recovery is fully underway in 1985 and the following years. In fact, that outlook has been held for over two years at this Institute. A reduction of around $150 billion over three years so it goes to a level of $100-120 billion by 1988 has been proposed for some time. Recent developments in Congress are validating the outlook maintained here for some time.

Interest Rates and Growth

Since March of this year, KEDI has acknowledged the necessity of higher interest rates in the face of an overheated economy to help growth slow to a pace that could be sustained over a longer period of time as opposed to "boom and bust." Last month, it was recommended here that the Fed wait and see for two months before moving for increases in interest rates. It is expected here that no more significant gains will take place this year. HOWEVER, latest data point to a lack of sufficient slowing. That is still elusive. The economy is still growing too fast with a pace higher than its long-term ability to continue the expansion. Anticipate the third quarter growth rate to be slower. Given the current situation, some moderate hikes in interest rates are fully justified. KEDI agrees with Mr. Volcker that there are only some signs of slowing; i.e., there are not enough signs yet to feel confident that growth will go on through next year. Those will come in the latter part of the year. The interest rate levels experienced currently are not going to damage business. Why? The tax system and the rules of depreciation have become beneficial to companies and their write-offs make paying somewhat higher interest rates not as burdensome.

KEDI FORECAST HIGHLIGHTS

TABLE 0.00

Indicator	Unit	1984	1986	1987	1988
Gross national	bil.72%	1629.6	1704.9	1764.6	1856.4
product	% change	6.1	2.3	3.5	5.2
Index of industrial	1967=100	163.5	173.3	183.9	187.6
production	% change	10.7	2.6	6.1	10.2
Capacity	%	81.3	81.1	82.4	82.9
utilization	% change	8.1	-3.0	1.6	.7
Unemployment	%	7.32	6.99	6.69	6.48
rate	% change	-23.6	-.4	-4.3	-3.2
Private housing	mil.units	1.826	1.526	1.700	1.999
starts	% change	6.5	-2.9	11.4	17.5
Car	mil.units	10.5	9.7	10.3	11.2
sales	% change	14.1	-3.0	5.3	9.0
Implicit GNP	1972=100	223.5	246.3	259.6	274.1
price deflator	% change	3.7	5.0	5.4	5.6
Consumer price	1967=100	307.5	342.4	362.6	384.7
index	% change	3.4	5.7	5.9	6.1
Producer price index	1967=100	292.9	330.2	352.3	377.7
(Finished goods)	% change	2.7	6.9	6.7	7.2
Federal	bil.$	-168.1	-142.7	-146.1	-141.9
deficit	% change	-7.6	-8.9	2.4	-2.9
Personal	bil.$	3037.1	3569.0	3922.3	4345.9
income	% change	10.8	7.5	9.9	10.8
Prime	%	12.41	13.80	13.94	13.38
rate	% change	16.0	-2.3	-1.0	-4.0
Mortgage	%	14.09	13.75	13.32	13.20
rate	% change	4.9	-4.8	-3.1	-.9
Currency plus	bil.$	542.5	600.3	635.1	675.1
demand deposits	% change	6.6	5.4	5.8	6.3
Commercial and	bil.$	440.6	467.8	486.5	506.9
industrial loans	% change	6.7	3.2	4.0	4.2

Numbers in "% change" rows show percent changes over the previous year

OVERVIEW

Higher interest rates will affect consumer demand, particularly the demand for consumer durables. Potential new home and new car buyers will bear the brunt of interest rates increases. The upward movement in recent months and some possible further increases are not viewed here as stifling but as achieving the desirable result of tempering the fast beat of the economy.

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, no updates took place.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1987 period. In 1984 and 1985 some increases in interest rates are expected. Relaxation will take place in late 1986 and in 1987.

4. In 1984 a good harvest is assumed for this country, and low production of crops is expected in the U.S.S.R. and China. In 1985, assume U.S. record crops, and in the U.S.S.R. and China, average crops will take place. In 1986 good crops at all main producing countries are anticipated.

5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%, Japan 2.6%.

No drastic changes in international relationships are anticipated.

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the July 1984 KEDI forecast. In 1985 and 1986 a general slowdown is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasinally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1535.3	1609.3	1629.3	1636.2	1643.5	1629.6	6.1
Index of industrial production	1967=100	147.7	159.7	163.1	164.8	166.5	163.5	10.7
Unemployment rate	%	9.6	7.9	7.5	7.0	6.9	7.3	-23.6
Capacity utilization rate	%	72.5	80.4	81.6	81.5	81.5	81.3	8.1
Private housing starts	mil.	1.703	1.962	1.852	1.780	1.711	1.826	6.5
Car sales	mil.	9.2	10.6	11.0	10.5	10.1	10.5	14.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1629.6	1652.5	1663.9	1671.5	1680.1	1667.0	2.3
Index of industrial production	1967=100	163.5	167.1	167.9	169.4	171.1	168.9	3.3
Unemployment rate	%	7.3	6.9	7.0	7.1	7.1	7.0	-4.1
Capacity utilization rate	%	81.3	81.2	81.4	81.3	81.2	81.3	.0
Private housing starts	mil.	1.826	1.593	1.620	1.602	1.470	1.571	-14.0
Car sales	mil.	10.5	10.2	10.1	9.8	9.7	10.0	-4.8

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Gross national product	bil. 72$	1667.0	1689.6	1693.6	1712.8	1723.8	1704.9	2.3
Index of industrial production	1967=100	168.9	171.5	171.7	173.0	177.1	173.3	2.6
Unemployment rate	%	7.0	7.1	7.0	7.0	6.9	7.0	.0
Capacity utilization rate	%	81.3	81.0	80.9	81.0	81.3	81.1	-3.0
Private housing starts	mil.	1.571	1.499	1.551	1.559	1.495	1.526	-2.9
Car sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0

*Historical data (1) % change over previous year

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

KEDI had a lot of company in underestimating the second quarter growth of the economy. Based on preliminary data for that quarter and the expected trend in the second half of this year, the GNP growth for 1984 has been revised upwards.

Recent data document that the economy continues to grow at a pace that is a bit too fast for long-lasting health. Again, there is too much good news.

1. The "Flash estimate" of second quarter growth in GNP was for a hefty 5.7 percent. (A rate of about 4 percent would have been just about right.) The estimate of growth in the first quarter was revised upward from 8.8 to 9.7 percent in terms of real GNP. That is a blistering pace.

If a projection were based on the rate of change in the first and second quarters, growth for the year would be around 7 percent. That would be an intolerable increase that would use up the energy of the recovery and rekindle inflation. IT WILL NOT HAPPEN. KEDI forecast a significant slowing in the last two quarters of this year. Expect growth to average 6.1 percent for 1984.

Secretary Regan said that GNP is likely to grow by 6 percent for this year. KEDI is in general agreement. Previous estimates of yearly expansion by the Administration were at 5.5 percent as they had been here at KEDI.

2. Construction spending went up to a seasonally adjusted rate of 302.5 billion dollars in April. The rate in the prior month was just slightly less at $302 billion. A small decline would have been acceptable here on the heels of the first quarter jump.

3. Major retailers reported strong sales in May as compared to the figures a year earlier which were also strong. For instance, Sears reported a 6.1 percent rise in May sales and Federated Department Stores showed an 11.9 percent gain.

4. The high rate of capacity utilization is another illustration of overheating. Factories, mines, and utilities were operating at 81.7 percent of capacity in May. That was a bit higher than the April rate which was revised to 81.5 percent.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Gross national product	bil. 72$	1535.8	1609.3	1629.3	1636.2	1643.5	1629.6	6.1
Personal cons. expenditures	bil. 72$	1011.4	1048.3	1073.1	1080.4	1090.3	1073.0	6.1
Gross private dom. investment	bil. 72$	219.0	277.4	274.3	271.9	267.5	272.8	24.6
Net exports	bil. 72$	11.3	-7.5	-9.8	-8.6	-7.4	-8.3	--
Federal govt. purchases	bil. 72$	117.8	113.8	113.8	113.9	114.0	113.9	-3.4
State and local purchases	bil. 72$	175.3	177.2	177.9	178.6	179.1	178.2	1.6

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil. 72$	1629.6	1652.5	1663.9	1671.5	1680.1	1667.0	2.3
Personal cons. expenditures	bil. 72$	1073.0	1098.9	1102.0	1105.4	1112.0	1104.6	2.9
Gross private dom. investment	bil. 72$	272.8	266.8	273.1	277.2	276.5	273.4	.2
Net exports	bil. 72$	-8.3	-7.5	-6.3	-7.2	-5.2	-6.6	--
Federal govt. purchases	bil. 72$	113.9	114.4	114.7	114.9	115.1	114.8	.1
State and local purchases	bil. 72$	178.2	179.9	180.4	181.2	181.7	180.8	1.5

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Gross national product	bil. 72$	1667.0	1689.6	1693.6	1712.8	1723.8	1704.9	2.3
Personal cons. expenditures	bil. 72$	1104.6	1115.0	1115.2	1129.5	1136.7	1124.1	1.8
Gross private dom. investment	bil. 72$	273.4	280.1	282.3	284.6	285.2	283.1	3.5
Net exports	bil. 72$	-6.6	-3.4	-2.8	-2.0	-1.0	-2.3	--
Federal govt. purchases	bil. 72$	114.8	115.8	116.0	116.6	117.9	116.6	1.6
State and local purchases	bil. 72$	180.8	182.1	182.9	184.1	185.0	183.5	1.5

*Historical data (1) % change over previous year

REAL GROWTH

5. Outlays on plant and equipment continued to show rapid growth. Industrial plant construction was up 16 percent in the first quarter. The latest Commerce Department April-May survey found business in a spending mood as they plan to put 14.8 percent more into capital spending this year that last (adjusted for inflation.) That represents the biggest hike since 1966. (Some businesses are long overdue for capital improvements.) Just two months earlier, the survey found a 12 percent gain.
The April-May hike found in the survey of capital spending plans reflected the strength of the economy as interest rates had gone up more than one percentage point between the two surveys. Reinforcing that was the Conference Board survey showing that the 1,000 leaders in manufacturing would be putting 25 percent more into capital spending this year than last year. More has to be invested to keep abreast of the high capacity utilization.

There are some signs of a reduced pace:

6. Industrial production was up just 0.4 percent in May to 163.2 percent of the 1967 average.

7. Housing starts were off in May. That is a needed cooling. See Section 4.1.

8. Production of construction supplies edged down by 0.1 percent in May. This points to a slower pace in housing in future months. Citing the downturn in these supplies, some have speculated that there is stagnation ahead, especially considering the interest rates moves of recent months. KEDI does not see any problem here. A move from too rapid expansion that was at an excessive pace to moderation does not mean a total cessation of growth.

9. Some industries are still in trouble or remain unchanged; agricultural machinery and copper mines to name two. As to agricultural machinery, tractor sales were basically unchanged in May. That is the last month of the spring season and although strong sales were expected by some, the gain was just under 2 percent. Production of copper mines has remained depressed and there are no signs of a significant resumption of output in the foreseeable future. Calculations show that the proposed imports restrictions on refined or blister copper will not result in relief as long as world prices remain depressed.

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	297.4	303.1	305.3	308.7	312.7	307.5	3.4
Producer price index,n.s.a.**	1967=100	285.2	290.6	291.5	293.2	296.1	292.9	2.7
Price deflators:								
GNP	1972=100	215.6	220.6	222.7	224.3	226.5	223.5	3.7
Personal cons. expenditures	1972=100	213.3	218.1	220.1	222.2	224.0	221.1	3.7
Gross private dom. investment	1972=100	215.4	217.9	218.4	215.0	216.9	217.1	.8
Federal purchases	1972=100	233.6	238.9	242.1	244.9	247.5	243.4	4.2

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Consumer price index, n.s.a.	1967=100	307.5	316.6	321.3	326.2	331.7	324.0	5.4
Producer price index,n.s.a.**	1967=100	292.2	299.8	306.3	311.8	317.1	308.8	5.4
Price deflators:								
GNP	1972=100	223.5	229.4	233.5	236.3	239.1	234.6	4.9
Personal cons. expenditures	1972=100	221.1	227.8	233.6	238.0	239.6	234.8	6.2
Gross private dom. investment	1972=100	217.1	216.6	216.2	214.2	222.4	217.4	.1
Federal purchases	1972=100	243.4	248.8	251.8	254.7	258.5	253.5	4.1

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	324.0	336.5	339.7	343.7	349.6	342.4	5.7
Producer price index,n.s.a.**	1967=100	308.8	322.6	327.8	332.5	337.8	330.2	6.9
Price deflators:								
GNP	1972=100	234.6	242.11	244.8	247.5	250.9	246.3	5.0
Personal cons. expenditures	1972=100	234.8	246.0	249.3	252.5	256.6	251.1	6.9
Gross private dom. investment	1972=100	217.4	212.9	208.8	214.2	216.2	213.0	2.0
Federal purchases	1972=100	253.5	260.9	264.5	267.2	268.1	265.2	4.6

*Historical data (1) % change over previous year **Finished goods

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The "Flash" report for the second quarter showed inflation moderating. The GNP deflator was up just 2.8 percent for the second quarter. That was down from the previous period when the gain had been 3.9 percent.

The low rate of change in the flash estimate fits in with the modest gain in consumer prices in May as they crept ahead just 0.2 percent aided by drops in some food prices and the tiny gain in gasoline prices. During the past 12 months prices have risen 4.2 percent. Producer prices reflected a very modest 0.3 percent change. Over the last 12 months, they rose just 2.6 percent. The index, before adjustment, of producer prices was at 291.5 of its 1967 average as compared to 291.4 for April. KEDI's projection of moderate inflation is being confirmed. (Details can be seen in Table 2.1.)

This Institute does not agree with Milton Friedman or J.K. Galbraith or G. Moore in their assessmentt that inflation is going to jump ahead very soon. They see inflation of close to a 10 percent annual rate by the end of this year with Friedman attributing it to the growth in the money supply and Galbraith blaming the red-ink in Washington. Geoffrey Moore's business cycle research has lead him to conclude that a 9-10 percent rate by late 1984 or early 1985 will occur based on his "leading index of inflation" particularly pointing to the growth in the percent of population employed and the growth of debt.

The outlook of these gentlemen is completely different than that of most forecasters including KEDI. NO DOUBLE DIGIT INFLATION IS IN SIGHT. Expect inflation of around 3.4 percent this year and 5.4 percent in 1985. Basically, as was stated in the last Survey, moderation in wage settlements, downward pressure of low import prices due to the strong dollar, and fairly good harvest are factors here. Surplus demand generated by the federal deficit and money supply increases will be offset to a large extent by these aforementioned factors. As can be seen from the following table, the impact of wage settlements and unit labor cost gains will be minimal and not the cause of excessive pressure on prices. Food prices are seen as not being contributors to renewed heated-up inflationary moves. The last two items, import prices and the exchange rate, demonstrate the high level where

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

			1984					%
Indicator	Unit	1983*	1	2	3	4	1984	(1)
Gross national product	bil.$	3310.5	3550.1	3628.6	3670.7	3722.7	3643.0	10.0
Personal cons. expensitures	bil.$	2158.0	2286.2	2361.7	2400.6	2442.6	2373.0	9.8
Gross private dom. investment	bil.$	470.9	604.6	599.2	584.5	580.3	592.2	25.8
Net exports	bil.$	-9.0	-48.3	-47.7	-37.8	-29.4	-40.8	--
Federal purchases	bil.$	274.8	271.9	275.5	278.9	282.2	277.1	1.7
State and local purchases	bil.$	414.7	435.7	439.9	444.5	447.0	441.8	6.9

			1985					%
Indicator	Unit	1984	1	2	3	4	1985	(1)
Gross national product	bil.$	3643.0	3791.3	3885.4	3949.1	4017.5	3910.8	7.4
Personal cons. expenditures	bil.$	2373.0	2503.5	2574.4	2631.4	2664.7	2593.5	9.3
Gross private dom. investment	bil.$	592.2	578.0	590.4	593.7	614.8	594.2	1.3
Net exports	bil.$	-40.8	-26.0	-22.6	-26.9	-21.2	-24.9	--
Federal purchases	bil.$	277.1	284.6	288.8	292.6	297.5	290.9	5.0
State and local purchases	bil.$	441.8	451.2	454.4	458.3	461.7	456.4	3.3

			1986					%
Indicator	Unit	1985	1	2	3	4	1986	(1)
Gross national product	bil.$	3910.8	4090.7	4145.3	4239.5	4324.3	4199.9	7.4
Personal cons. expenditures	bil.$	2593.5	2742.8	2780.4	2852.2	2917.1	2823.1	8.9
Gross private dom. investment	bil.$	594.2	596.3	389.5	609.6	616.5	603.0	1.5
Net exports	bil.$	-24.9	-15.4	-11.3	-7.2	-2.7	-9.2	--
Federal purchases	bil.$	290.9	302.1	306.8	311.6	316.1	309.2	6.3
State and local purchases	bil.$	456.4	464.9	468.6	473.3	477.3	471.0	3.2

*Historical data (1) % change over previous year

PRICES

the dollar will remain and the small change in prices of imports will provide a downward force on the domestic price level. (A la Star Wars, "May the Force Be with you.)

With You!")

The forecast of factors contributing to holding inflation down in 1984 - 1986

Percentage increases over prior year

	1984	1985	1986
1. Average 1st year wage gain in wage settlements	+3.7	+4.6	+3.3
2. Unit labor costs increases	+3.9	+5.1	+4.6
3. Food prices (CPI, 1967=100)	+2.1	+3.4	+4.4
4. Import prices	+.7	+1.0	+2.1
5. Rate of exchange, U.S.$ (in Swiss francs)	2.24	2.21	2.13

1.22 NOMINAL GNP

(Table 1.22 on page 11)

Compared to the previous month's forecast, the data for Personal Consumption Expenditures has been slightly increased for the rest of this year and for 1985, assigning more weight to consumer spending than previously anticipated. The upward revision of data for Personal consumption expenditures indicate consumer spending will play a slightly more significant role than had been anticipated earlier. In 1986 consumers will slow down in spending somewhat due to the general slowdown in economic activity projected. Data for Gross Private Domestic Investment has been reduced for 1985 and 1986 due to the downward revision of price deflators for business fixed investment in plant and equipment and nominal values of inventories' changes. The other forecast data remain essentially unchanged. Foreign trade imbalances will persist throughout 1984 - 1986 due to the high international value of the dollar and resulting low prices of imported commodities.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast of the unemployment rate has been revised downward because of the drastic decline of 0.3 percentage points in May and the expected further significant decline in June. Such a large drop was not expected by KEDI or any of the other economic services. The May and expected June unemployment figures are a surprise and alter the outlook for the rest of the year and for 1985.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*			1984		1984	%
			1	2	3	4		(1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.3
Civilian labor force	mil.	111.5	112.8	113.7	114.8	115.9	114.3	2.5
Employment	mil.	100.5	103.9	105.2	106.7	107.9	105.9	5.4
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagriculture	mil.	97.2	100.5	101.8	103.3	104.5	102.5	5.4
Unemployment rate	%	9.58	7.87	7.47	7.04	6.91	7.32	-23.6

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.3	117.0	118.0	119.4	120.7	118.3	4.0
Employment	mil.	105.9	108.9	109.7	111.5	112.2	110.6	4.4
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagriculture	mil.	102.5	105.5	106.3	108.1	108.8	107.2	4.6
Unemployment rate	%	7.32	6.94	7.01	7.04	7.08	7.02	-4.1

Indicator	Unit	1985			1986		1986	%
			1	2	3	4		(1)
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	118.3	121.1	122.8	124.4	126.0	123.6	4.0
Employment	mil.	110.6	112.5	114.2	115.8	117.8	115.0	4.0
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagriculture	mil.	107.2	109.1	110.8	112.4	113.9	111.6	4.1
Unemployment rate	%	7.02	7.11	7.01	6.95	6.89	6.99	-.4

*Historical data (1) % change over previous year

EMPLOYMENT AND LABOR

Average joblessness had been forecast here for 1984 at 7.60 percent and that is revised downward a bit to 7.32 percent in this current issue. Expect the figure to average 7.04 percent in the third quarter and 6.91 in the final quarter of this year. Anticipate the jobless rate will quiver near 6.94 percent in the first quarter of next year and just a tad above 7 percent in the remaining quarters of 1985.

The trend toward an increasing portion of jobs being in the service sector will continue but at a somewhat slower pace than was reached in the seventies with the rather rapid decline of the old basic industries. (There is no easy solution for the estimated 500,000 people that have still not found work since being laid off in the steel and auto industries.) Currently roughly 70 percent of jobs are in the service sector, and over the next decade that portion is going to increase a few more percentage points. Although the publicity has gone to the need for high-tech people, in terms of total numbers, there will be a greater need for jobs reuiring little or no college education such as cashiers and custodians. (A hint of the change can sometimes be found in the want ads with a job description that states something like "applicant should have no more than two years of college"--a claims representative position.)

Over the last decade, the job situation has affected states in very different ways. For instance, whereas Ohio and Indiana lost about one percent in the total employed, Alaska jumped ahead by over 90 percent; Nevada and Wyoming by over 60 percent. Changes in the next 10 years will not be as dramatic.

1.41 HOUSING

(Table 1.41 on page 15)

As has been anticipated here, housing has begun to slow. Table 4.1 points to a moderating in housing starts but shows they will remain at a fairly good level this year with no drastic declines taking place in 1985 or 1986. During 1987 and the following years, a resumption of the upward trend is projected. KEDI does share the view of Jack Carlson of the National Association of Realtors in his prediction that housing starts will be down to a rate of 1.5 million by the start of next year. For 1985, the projection here is that housing starts, both single and multifamily, will total 1.6 million--down from the anticipated total of 1.8 million for this year.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984 1	 2	 3	 4	1984	% (1)
Single-family housing starts	mil.	1.069	1.277	1.182	1.150	1.070	1.170	9.4
Multifamily housing starts	mil.	.647	.685	.670	.630	.641	.656	1.5
Mobile home shipments	mil.	.288	.304	.317	.316	.301	.309	7.6
Permits authorized	mil.	1.596	1.809	1.711	1.690	1.631	1.710	7.1
1-family unit price, new**	tho.$	89.8	94.7	96.5	98.7	100.3	97.6	8.5
1-family unit price, exist.**	tho.$	82.5	86.5	88.7	91.5	92.2	89.7	8.8

Indicator	Unit	1984	1985 1	 2	 3	 4	1985	% (1)
Single-family housing starts	mil.	1.170	.961	.970	.981	.869	.945	-19.2
Multifamily housing starts	mil.	.656	.632	.650	.621	.601	.626	-4.6
Mobile home shipments	mil.	.309	.274	.279	.281	.230	.266	-14.1
Permits authorized	mil.	1.710	1.501	1.570	1.539	1.400	1.503	-12.2
1-family unit price, new**	tho.$	97.6	104.8	105.2	107.6	108.3	106.6	9.3
1-family unit price, exist.**	tho.$	89.7	94.3	97.3	98.9	100.9	97.9	9.1

Indicator	Unit	1985	1986 1	 2	 3	 4	1986	% (1)
Single-family housing starts	mil.	.945	.921	.950	.942	.909	.930	-1.6
Multifamily housing starts	mil.	.626	.578	.601	.617	.586	.595	-4.9
Mobile home shipments	mil.	.266	.231	.248	.261	.273	.253	-4.8
Permits authorized	mil.	1.503	1.310	1.402	1.448	1.507	1.417	-6.6
1-family unit price, new**	tho.$	106.6	109.2	111.8	114.9	117.3	113.3	6.3
1-family unit price, exist.**	tho.$	97.9	101.9	104.7	108.0	110.2	106.2	8.5

*Historical data (1) % change over previous year **Average

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast is slightly altered. A cooling in this sector has begun as evidenced by sales being about flat in early June with the seasonally adjusted annual sales rate at 7.8 million of domestic cars. Mid-June sales moved up again to an annual rate of 8.2 million. Expect some see-saw movement to continue in car sales. Manufacturing production plans were cut in late June by about 2.4 percent from earlier June plans.

KEDI forecasts total car sales for the year to be 10.5 million as opposed to the 10.2 million projected in the last issue. During 1985, look to total sales of 10.0 million for a decline from the current year of 4.8 percent. Sales are expected here to soften a bit in 1986.

KEDI reiterates its forecast of a strike in the auto industry first made in January of this year. The view of John Maher of Citicorp Infomration Service that a strike at GM leading to production cutbacks in the fourth quarter could reduce GNP growth in real terms by four percentage points or $16 billion is not shared here. Also, this Institute does not agree with Martin Mauro of Merrill Lynch Economics in his estimate that a strike would push unemployment up as much as 1/10th percentage point.

Expect the strike to be of a short duration that would cause a maximum drop in GNP of 4-5 billion (in 1972$). The change it would cause in the jobless rate is seen here as not being significant as that rate could have just .04 percentage point added to it by the strike.

As to imported cars, do not expect their numbers to soar. Predicasts Inc., has forecast 4.7 million imports by 1987. KEDI does not project them nearly so high.

KEDI Forecast of Auto Imports
(in millions)

1984	2.7
1985	2.8
1986	2.8
1987	2.9

In 1987, total sales are seen as at 11.1 million: 8.2, domestic; 2.9 imported.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.2	10.6	11.0	10.5	10.1	10.5	14.0
Domestic	mil.	6.8	8.3	8.6	7.1	7.5	7.9	16.2
Imported	mil.	2.4	2.3	2.4	2.4	2.6	2.5	1.0
Dealers inventories, n.s.a.	mil.	1.4	1.6	1.6	1.7	1.5	1.5	.0
Factory shipments	mil.	6.7	8.3	7.9	7.8	7.0	7.8	16.4
Light-duty trucks:								
Total sales	mil.	2.5	3.0	3.1	3.0	2.8	3.0	20.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	10.5	10.2	10.1	9.8	9.7	10.0	-4.8
Domestic	mil.	7.9	7.7	7.7	7.4	7.3	7.5	-5.1
Imported	mil.	2.5	2.5	2.4	2.4	2.4	2.5	.4
Dealers inventories, n.s.a.	mil.	1.5	1.6	1.7	1.6	1.5	1.5	.0
Factory shipments	mil.	7.8	7.6	7.7	7.3	7.1	7.4	-5.1
Light-duty trucks:								
Total sales	mil.	3.0	2.5	2.8	3.0	2.8	2.8	-6.7

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0
Domestic	mil.	7.5	7.1	7.4	7.2	7.3	7.3	-2.7
Imported	mil.	2.5	2.4	2.3	2.4	2.5	2.4	-.4
Dealers inventories	mil.	1.5	1.9	1.8	1.7	1.5	1.5	.1
Factory shipments	mil.	7.4	7.2	7.3	7.0	6.9	7.3	-2.7
Light-duty trucks:								
Total sales	mil.	2.8	2.7	2.8	2.7	2.6	2.7	-3.6

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*Historical data (1) % change over previous year

1.50 BUDGETS

(Table 1.50 on page 19)

The forecast of the federal deficit and state and local surpluses remains essentially unchanged. The likely outcome of the current House-Senate negotiations concerning the reduction of the federal deficit has been anticipated here since the first of this year: $150 billion less in red ink over the next three years. It has been maintained here for more than two years that the time to reduce the deficits would be when recovery was well established: It is appropriate now. House and Senate negotiators reached an agreement in late June on a three-year bundle that would increase taxes and reduce some expenditures. That is part of a larger effort that is not yet settled: the Senate backs Reagan's $140 billion in reductions, and the House looks to savings through 1987 of around $180 billion.

As discussed in earlier issues of this Survey, KEDI considers reducing spending more efficient than increasing taxes for the following reasons:

1. Hiking taxes that are paid by businesses does not help the economy over the long-term. On the contrary, sooner or later, such increases result in higher prices and add to the inflation rate.
2. Moving the rates up for personal income taxes reduce consumption and, most importantly, cut into personal savings; hence, reducing the ability of the economy to generate funds needed to finance growth in the form of needed investment and research. It seems fitting to quote again from a piece of old financial wisdom: "Each old tax is a good tax and each new tax is a bad tax."
3. Cuts in government spending are more beneficial as that suppresses the imbalance at its source. Less government spending means less inflationary demand.

KEDI agrees with the present compromise: partly due to an acknowledgement of political reality that some tax increases were the price for some budget cuts. The present alternative is definitely acceptable by Congress and by the President. The result will be generally beneficial for the economy, but not as beneficial as it would be to enlarge spending cuts and leave taxes alone.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Federal government:								
Income taxes	bil.$	298.5	302.5	319.0	323.4	332.0	319.2	6.9
Corpor.profits tax accruals	bil.$	60.4	72.5	75.0	78.5	80.3	76.6	26.8
Surplus/deficit	bil.$	-182.0	-170.7	-167.4	-168.5	-165.6	-168.1	-7.6
State and local governments:								
Income taxes	bil.$	110.5	118.8	121.8	126.2	129.1	124.0	12.1
Corpor.profits tax accruals	bil.$	19.5	20.2	21.8	22.6	24.1	22.3	34.2
Surplus/deficit	bil.$	51.4	60.5	62.3	65.0	66.4	63.6	23.6

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Federal government:								
Income taxes	bil.$	319.2	343.5	352.8	363.4	368.4	357.0	11.9
Corpor.profits tax accruals	bil.$	76.6	83.2	85.1	86.7	88.0	85.8	12.0
Surplus/deficit	bil.$	-168.1	-160.3	-160.1	-157.0	-149.2	-156.7	-6.8
State and local governments:								
Income taxes	bil.$	124.0	132.6	135.9	139.7	141.4	137.4	10.8
Corpor.profits tax accruals	bil.$	22.3	25.3	27.1	28.1	29.4	28.1	26.2
Surplus/deficit	bil.$	63.6	68.9	71.2	72.6	74.5	71.8	13.0

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Federal government:								
Income taxes	bil.$	357.0	374.1	376.2	377.9	380.7	377.2	5.7
Corpor.profits tax accruals	bil.$	85.8	88.7	88.5	89.2	90.3	89.2	4.0
Surplus/deficit	bil.$	-156.7	-147.1	-144.9	-139.0	-139.9	-142.7	-8.9
State and local governments:								
Income taxes	bil.$	137.4	142.9	143.5	144.6	146.7	144.4	5.1
Corpor.profits tax accruals	bil.$	28.1	30.3	31.2	32.1	33.2	32.0	13.8
Surplus/deficit	bil.$	71.8	75.9	77.0	78.0	79.1	77.5	7.9

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.50 on page 21)

There are adjustments in the forecast of personal income and components that reflect the upward revisions in forecasts of employement. Data in Table 1.60 show significant increases in Personal Income, Personal Disposable Income, and Compensation of Employees. Personal income is now forecast as being 10.8 percent higher than in 1983, whereas the June Survey projected a gain of 10.3 percent. During 1985, the upward move will be somewhat less as expansion is set at 9.3 percent over the current year. Expect Personal income to be 7.5 percent higher in 1986 than in 1985 with the latter part of 1986 showing more rapid gains as momentum is regained entering 1987.

During May, wages and salaries rose by 0.5 percent after jumping ahead by 1.2 percent in April. Average weekly pay of factory workers edged down to $371.18 from the April level of 372.60. KEDI views the moves as temporary. In the ensuing months, a more rapid pace is forecast for gains in this area.

Corporate profits, after taxes, are now projected as being 22.2 percent higher this year than last year. That is super. Such high rates of gain in profits are needed to finance capital investment and research. After-tax profits are forecast as being higher, quarter by quarter, for the rest of this year and through the middle of 1985 when they will level-off near $175 billion per quarter and then move ahead to a quarterly rate, s.a., of close to $190 billion in the last quarter of 1986. Profits in 1986 are calculated to be 4.7 percent higher than in 1985, whereas 1985 profits will be 8.6 percent above the current year--certainly, respectable gains. The business sector will generate enough funds to finance the major portion of its capital needs. Calculations show that business requirements for funds from financial markets will not be excessive: $36 billion this year; $47 billion next year, and $43 billion in 1986 won't cause a collision with federal budget needs.

KEDI had been repeatedly stating for more than two years that there will be no collision between the federal needs for financing and needs of private businesses. As it is seen from the above data, the net business financing averaging $40-$50 billion a year does not represent any threat to financial stability of the economy.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2742.1	2926.2	3022.5	3072.4	3127.1	3037.1	10.8
Personal disposable income	bil.$	2335.6	2504.9	2581.7	2623.0	2666.0	2593.9	11.1
Compensation of employees	bil.$	1990.2	2113.4	2137.6	2126.7	2264.1	2160.5	8.6
Corporate after tax profits	bil.$	130.6	151.6	156.8	162.9	167.0	159.6	22.2
Personal saving	bil.$	113.6	148.4	148.9	150.6	150.8	149.7	31.8
Average weekly earnings	$	354.5	366.2	370.7	374.7	380.2	373.0	5.2

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Personal income	bil.$	3037.1	3206.4	3293.5	3367.6	3410.6	3319.5	9.3
Personal disposable income	bil.$	2593.9	2730.3	2804.8	2864.5	2900.8	2825.1	8.9
Compensation of employees	bil.$	2160.5	2298.7	2320.5	2361.4	2374.6	2338.8	8.3
Corporate after tax profits	bil.$	159.6	171.2	173.1	174.3	174.9	173.4	8.6
Personal saving	bil.$	149.7	153.0	155.0	157.1	159.2	156.1	4.3
Average weekly earnings	$	373.0	385.9	391.4	397.8	402.5	394.4	5.7

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Personal income	bil.$	3319.5	3496.8	3538.9	3552.3	3687.7	3596.0	7.5
Personal disposable income	bil.$	2825.1	2979.8	3019.2	3092.8	3160.3	3063.0	8.4
Compensation of employees	bil.$	2338.8	2431.2	2443.6	2489.7	2513.4	2469.5	5.6
Corporate after tax profits	bil.$	173.4	176.0	178.2	182.3	189.8	181.6	4.7
Personal saving	bil.$	156.1	158.7	159.3	160.0	161.5	159.9	2.4
Average weekly earnings	$	394.3	408.7	412.5	416.7	421.1	414.8	5.2

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

In the June issue, KEDI anticipated that the Fed would wait a month or two to work on tightening the money supply. It appears that a "watchful waiting" policy was adopted by the Fed at the May 21-22 meeting of the Federal Open Market Committee. This Institute anticipates that the July meeting of that Committee will include some measures to slightly tighten money and credit.

Data show that total debt of the nation's nonfinancial institutions has been expanding too rapidly. In April, it grew at an annual rate of 13.4 percent. It will be necessary for the Fed to take the steps to slow that down.

There are other indications that credit has been growing too fast: In April, $6.41 billion more was taken on in installment debt than was paid off during the month. At an annual rate, that would be growth of 19 percent--too much debt gain. Consumer installment debt totaled roughly $412 billion at the end of April; a gain of 15.4 percent over the same month last year.

Commercial and industrial loans of 10 leading New York banks bounded ahead by $1.1 billion in the first week of June as compared to a decline in the prior week of about $300 million. Together, consumer credit and commercial credit need to be curbed.

Analysis of the present financial markets lend credence to the view here that the recent increase in the prime rate was not induced by the Fed's action but by banks that raised the rate in the face of higher demand--especially for commercial loans and commercial paper.

KEDI expects a possible tightening by the Fed in terms of money and credit conditions in the next few months--possibly in August of this year.

As can be seen on Table 1.70, consumer installment credit is now seen as being 8.7 percent higher this year than in 1983. Look to it to expand by 5.2 percent next year over the current year. Commercial and industrial loans are projected 6.7 percent higher this year--a significant increase when compared to their moderate growth in 1983. Projection of mortgage loans corresponds to the expected slowdown in housing starts: this year such loans will increase by a healthy 6.8 percent, but in 1985 and in 1986 they will slow down to growth rates over each prior year of 3.0 and 3.1 percent, respectively.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1983*			1984		1984	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	509.0	532.7	537.2	547.3	552.8	542.5	6.6
Time deposits, adjusted,M2	bil.$	2115.9	2217.3	2263.5	2317.5	2373.8	2293.0	8.4
Consumer instal. credit	bil.$	387.9	404.7	410.9	416.3	421.7	421.7	8.7
Commerc. & indus. loans at banks	bil.$	413.0	418.7	424.7	431.5	440.6	440.6	6.7
Large denomination time dep.	bil.$	307.5	340.7	352.3	345.8	351.7	347.6	13.0
Mortgages at S&L Assns.	bil.$	493.4	498.9	509.3	517.9	527.1	527.1	6.8

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	542.5	559.4	565.1	572.7	580.1	569.3	5.9
Time deposits, adjusted,M2	bil.$	2293.0	2420.6	2476.9	2520.3	2571.3	2497.3	8.9
Consumer instal. credit	bil.$	421.7	432.6	435.1	440.8	443.5	443.5	5.2
Commerc. & indus. loans at bnaks	bil.$	440.6	442.3	444.7	446.5	453.1	453.1	2.8
Large denomination time dep.	bil.$	347.6	353.2	357.8	360.3	365.7	359.3	3.4
Mortgages at S&L Assns.	bil.$	527.1	529.7	532.9	536.6	542.9	542.9	3.0

Indicator	Unit	1985			1986		1986	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	569.3	587.3	594.3	604.8	614.6	600.3	5.4
Time deposits, adjusted,M2	bil.$	2497.3	2632.5	2700.1	2762.4	2850.1	2736.3	9.6
Consumer instal. credit	bil.$	443.5	449.1	452.9	454.1	457.6	457.6	3.2
Commerc. & indus. loans at banks	bil.$	453.1	453.9	454.3	459.1	467.8	467.8	3.2
Large denomination time dep.	bil.$	359.3	366.5	373.9	378.5	384.7	375.9	4.6
Mortgages at S&L Assns.	bil.$	542.9	543.7	547.1	553.1	559.8	559.8	3.1

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

KEDI views the recent jump in the prime rate from 12.5 to 13 percent as approaching the top for this year. If there are any further increases, expect them at the beginning of fall. The economy has moved ahead faster than expected, and the demand for credit has had more zest than is really healthy for a well-paced growth pattern.

In general, forecast data has been raised somewhat for interest rates and yields when compared to the previous forecast for this year and next year. Any meaningful drop is not seen as taking place before the middle of 1986.

KEDI does not agree with the revised forecast of Data Resources. For instance, yields on 30-year Treasury bonds of 14 percent by the end of the year appear too high.

This Institute shares the outlook of T. Thomson of Crocker National Bank in San Francisco that it will be necessary for the Fed to tighten credit as the second quarter expansion in inflation-adjusted GNP was likely higher than the Federal Reserve would have liked it to be.

The perils of renewed inflation will keep the Fed on their toes. Even though there has been evidence of slowing in the economy, the pace is still too brisk and requires some action.

Kevin Villani of the Federal Home Loan Mortgage Corp. (Freddie Mac) and other economists look to mortgage rates to move up through the first part of next year. KEDI has been among those with that view. Table 1.80 has shown the mortgage rate slightly higher for each consecutive quarter in this and in last month's Survey. It is not until after the middle of 1986 that some downward movement is forecast. Mr. Villani looks to the possibility of a rate of 15.5 percent in mid-1985. KEDI forecast the rate around 14.4 percent in the June issue and has revised that to 14.5 percent. A rate of 15.5 percent is seen here as excessive. The forecast of the stock market shows only mild fluctuations. The forecast of the bond market remains cautious for the rest of this year and for 1985.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	8.61	9.17	9.74	9.89	10.17	9.74	13.1
Prime rate	%	10.70	11.08	12.31	13.00	13.23	12.41	16.0
Conventional mortgage rate	%	13.43	13.57	13.98	14.36	14.43	14.09	4.9
Aaa corporate bonds rate	%	12.04	12.28	12.97	13.11	13.27	12.91	7.2
20 years Govt. bonds yield	%	11.34	12.16	12.67	12.84	13.14	12.70	12.0
Standard & Poor's 500 Average	1941-43 =10	160.41	160.51	160.02	159.13	160.17	159.96	-.3

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Treasury bills (3 mo) yield	%	9.74	10.21	10.86	11.02	11.10	10.80	10.9
Prime rate	%	12.41	13.25	13.10	13.00	13.06	13.10	5.6
Conventional mortgage rate	%	14.09	14.52	14.48	14.47	14.28	14.44	2.5
Aaa corporate bonds rate	%	12.91	13.38	13.42	13.30	13.51	13.40	3.8
20 years Govt. bonds yield	%	12.70	13.38	13.43	13.52	13.64	13.49	6.2
Standard & Poor's 500 Average	1941-43 =10	159.96	156.14	157.21	157.43	155.22	156.50	-2.2

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Treasury bills (3 mo) yield	%	10.80	11.03	10.86	10.24	10.21	10.59	-1.9
Prime rate	%	13.10	13.20	13.00	12.86	12.14	12.80	-2.3
Conventional mortgage rate	%	14.44	14.36	14.05	13.45	13.12	13.75	-4.8
Aaa corporate bonds rate	%	13.40	13.71	13.51	13.28	12.85	13.34	-.5
20 years Govt. bonds yield	%	13.49	13.61	13.65	13.51	13.27	13.51	.1
Standard & Poor's 500 Average	1941-43 =10	156.50	151.17	148.36	150.25	157.48	151.82	-3.0

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Net Exports in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.4, April 1984, Table 1.1. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Net Exports, bil.$)

Actual figure: -9.0

Forecaster(and page in source)	Date of Forecast	Forecast	Difference Actual-Forecast
Albert T. Sommers, The Conference Board, pg 9	11/17/82	-11.0	-2.0
National Securities & Research Corporation, pg 9	11/18/82	13.0	-22.0
Calvin C. Myers, The Merchants National Bank of Aurora, pg 10	12/82	10.0	-19.0
Economics Department, U.S. Trust Company of New York, pg 10	12/82	9.8	-18.3
Walter D. Fackler, University of Chicago,pg12	12/8/82	5.0	-14.0
United Business Service, pg 12	12/13/82	20.0	-20.9
Economic Unit, U.S. News and World Report, pg 14	12/27/82	15.0	-24.0
Georgia State University, pg 17	11/82	7.9	-16.9
Peter L. Bernstein, Inc., pg 18	11/2/82	22.0	-31.0
Chemical Bank, pg 20	11/9/82	26.0	-35.0
American Statistical Association and National Bureau of Economic Research, pg 21	12/82	31.2	-40.0
Manufacturers Hanover Trust Company, pg 22	12/82	2.1	-11.1
UCLA Business Forecasting Project, pg 23	12/82	-18.6	9.6
Metropolitan Life Insurance Company, pg 24	12/1/82	-5.0	-4.0
The Fidelity Bank, pg 25	12/8/82	-28.0	19.0
Citibank Economic Forecasting Service, pg 26	12/9/82	-3.0	-6.0
Data Resources, Inc., pg 28	12/24/82	-6.9	-2.1
Chase Econometrics, pg 29	12/29/82	-24.3	15.3
K.E.D.I.,Inc., pg 30	1/1/83	-23.7	14.7
The Equitable Life Assurance Society of the U.S., pg 31	1/5/83	-7.8	-1.2
The First National Bank of Chicago, pg 33	1/6/83	19.4	-28.4
Standard & Poor's Corporation, pg 34	1/6/83	2.2	-11.2
Morgan Guaranty Trust Company of New York,pg 35	1/7/83	-9.6	.6

3.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

This July 1984 issue contains a description of the Kent Model's Interindustry System (The Input-Output System), and a list of the authors and sources referenced in the text of the May and June issues of this Survey.

So far, the following texts on the Kent Economic Forecasting System have been published:

Subject	Issue of the KES
Technical Data on Numbers of Variables, and Divisions of the Kent Model.	Vol.9, No.7, March 1984, pp.24,25
Forecast Horizon, Computer Language, and Types of Equations.	Vol.9, No.8, April 1984, pp.26,27
Types of Equationes, and Forecast Methods Based on Historical and Futuristic Approaches.	Vol.9, No.9, May 1984, pp.28,29
The Method of Futuristic Assessments	Vol.9, No.10, June 1984, pp.27,28

5.00 The Interindustry System of the Kent Model

5.10 General Description. The Interindustry equations are located in the Interindustry Division of the Kent Model. The breakdown of the economy into industries and the classification of industries correspond to those used by the U.S. Department of Commerce (1979). The Kent Model uses 83 industries as base industries. With necessary simplifications, the Model's Interindustry Table is represented in Figure 1.

KENT MODEL'S INTERINDUSTRY TABLES

	83 Industries	9 Categories	
83 Industries	Intermediate Consumption (1st Quadrant)	Final Output and Inventories' Changes (2nd Quadrant)	Total Outputs
8 Categories	Value Added (3rd Quadrant)		
	Total Charges		

Figure 1.

Figure 1. represents the familiar, traditional type of interindustry tables, which have the industry breakdown and the commodity breakdown as identical, and which locate data on Intermediate Consumption in the First Quadrant with data on Final Output and Inventories' Changes in the Second Quadrant and the Value Added data in the Third Quadrant. (At the present time, the Kent Model's tables are being revised into the make- and use-type tables.)

5.20 The Concept of the Kent Model Interindustry System is summarized in the following: Data in rows of the Kent Model's Interindustry Tables in the first and the second quadrants are regarded as data on Production and Sales. Data in columns of the first and third quadrants are regarded as Consumption and Purchases. Such arrangement corresponds to the general view on the economy as pursued in the Kent Model: The Interindustry System is considered as that of producers, who produce and sell (rows in the first and second quadrants), and, in order to do that, they consume and purchase intermediate commodities (columns in the first quadrant and changes of inventories of factors in the second quadrant) and services of factors of production (columns in the third quadrant.) A clear distinction is made between production and consumption on the one side and purchases and sales on the other side.

5.20 Comparison to the Other Models. Compared to the other interindustry models and models that include the interindustry and other relationships, the Kent Model's Interindustry Division has the following distinct features:

(1) The interindustry data are calculated as quarterly data -- contrary to yearly data generated by other models. The Kent Model's quarterly data are directly related with quarterly data of the other two Divisions. Thus the Model's interindustry, aggregative, and financial forecasts, simulations, and analyses are based on an integrated, consistent, and interactive system.

(2) The interindustry values are calculated as values in constant 1972$, and as values in current $. Thus, three sets of data are generated simultaneously: the interindustry flows in constant terms, the corresponding price deflators, and the interindustry flows in current dollars. Correspondingly, two sets of technical coefficients are used: in constant terms and in current terms. Compared to the traditional input-output models, this arrangement enables one to significantly extend the basis of analyses, simulations, and forecasts.

(Continued in the following issue.)

Names of authors and sources quoted in the texts of the May and June issues:

1. Black, Fisher: The Trouble with Econometric Models. Financial Analysts' Journal, March/April 1982, pp.29-37.
2. Lucas, R.E.,Jr., and Sargent, T., editors: Rational Expectations and Econometric Practice. University of Minnesota Press, 1981.
3. Mayer, L.S.: The Use of Exploratory Methods in Economic Analysis: Analyzing Residential Energy Demand. In: Evaluation of Econometric Models, ed. Jan Kmenta and James B. Ramsey. Academic Press, London, 1980, pp. 15 - 22.
4. Ramsey, J.B. and Kmenta, J.: Problems and issues in Evaluating Econometric Models. In: Evaluation of Econometric Models, ed. Jan Kmenta and James B. Ramsey. Academic Press, London, 1980, pp.2 - 5.
5. Tukey, J. W.: Exploratory Data Analysis. Addison Wesley, Reading, Massachusetts, 1977.
6. Where the Big Econometric Models Go Wrong. Business Week, Editorial, March 30, 1981 , pp.70-72,77.
7. Clouded Vision. The Wall Street Journal, Editorial, February 17, 1983,pp.1,14

5.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 3.00 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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AUGUST 1984 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, Inc. Any comments, suggestions or inquiries should be directed to:KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Inc., P.O. Box 99, Tallmadge, Ohio, 44278, U.S.A. Kent Economic and Development Institute,Inc. is not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute, Inc.

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This forecast uses the July 23, 1984, U.S. Department of Commerce first estimates of 1984:2 National Income and Product Data. Also used is the July 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

A slowdown of the economy --yes. A recession -- NO! Reasons can be found for no recession fears in the demand generated by government spending and in the strength in investment by businesses. REAL GROWTH Second quarter growth was still too fast, but some signs point to slowing such as the decline in durable orders and the slowing of new home sales. Look to an expansion in GNP of 7 percent this year. (Revised from the last Survey.) Strength is still seen in capacity-use rates and orders. PRICES The forecast is lowered. Anticipate that inflation will remain at low levels. There will not be any dramatic increases at the end of this year or in 1985. Inflation is not a big concern for citizens of this country this year -- or next year. EMPLOYMENT The projection is barely adjusted. Look to possible irregular movements in the unemployment rate through the end of this year, and expect the rate to quiver around 7 percent during 1985 with a slight movement up each quarter from the "low" average reached in the first part of the year. Total employment is forecast as expanding 5.4 percent this year and 4.1 percent in 1985. HOUSING The forecast is the same. Total starts forecast for this year for the single-family homes amount to 1.150 million -- a gain of 7.8 percent over 1983, but they will move down in 1985 to .950 million and edge down again during 1986. Do not expect the price of a place to hang your hat to drop as that is seen as going up about 8 percent each year through 1986. AUTOS The forecast is maintained. Recent sales spurts are essentially buying now instead of later and do not alter the forecast of domestic sales. GOVERNMENT BUDGETS The forecast here is revised downward a bit for the size of the federal deficits. It is assummed the whole $150 billion in reduction of the deficits over three years will be passed. Balancing state and local surpluses against federal deficits presents a more realistic picture. INCOME There is no sign of a recession here. The forecast is maintained. High interest income plays an important part in personal income. Look to disposable income to be up over 11 percent this year and close to 9 percent in 1985. MONEY AND CREDIT Expect the policy to remain on the stringent side. INTEREST RATES KEDI has said all year that interest rates would go up some whereas most were looking to declines.

0.02 OVERVIEW

Economic Future

DO NOT FEAR RECESSION. NONE IS ON THE HORIZON. Some recent articles concluded that the present extremely fast growth will result in a recession -- possibly very soon or in early 1985. Excessively positive signs frequently mentioned include the rise in employment, the brisk pace of profit and income gains, and the high capacity utilization rate. Those that dwell on business cycles and leading indicators often see the peak as having be reached early this year. Some admit it is too early to tell when the high point of the current growth spurt was reached. KEDI does not see that as an issue as what is occurring is a change in the rate of growth from rapid to slow, not a transition from boom to bust but more of a coming slowly to within acceptable speed limits (if you will) in order to reach the destination in good shape.

Analysis at this Institute shows it is extremely improbable that a recession would take place next year or in 1986. To put it more firmly: IT WILL NOT HAPPEN.

There are numerous reasons why the economy is not projected here as going into reverse gear.

1. The deficits at the federal level will continue. Expect the demand they generate to be a counterbalance to any potential small decline in demand from consumers and the business world.
2. Do not look to an end to the present investment boom by businesses this year or next year. Expect construction activity in nonresidential structures to continue as many large investment projects have barely begun and will take one to two years to finish. That committment is another reason balancing the scales against any recession.
3. Rates of increases in the accumulation of inventories have not been so high as to represent any danger of overstocking. A ratio that is still below normal is the inventory-to-sales ratio. Large increases in the building up of stocks that have taken place recently are not excessive given this current low ratio.
4. It is true that higher interest rates are expected, but KEDI projects increments as being within a range that will not cause any stifling of

KEDI FORECAST HUGHLIGHTS

TABLE 0.00

Indicator	Unit	1984	1986	1987	1988
Gross national product	bil.72$	1643.2	1738.9	1799.8	1889.8
	% change	7.0	2.6	3.5	5.0
Index of industrial production	1967=100	163.3	173.3	184.2	200.6
	% change	10.6	2.7	6.3	8.9
Capacity utilization	%	81.4	81.1	81.7	82.4
	% change	12.3	-.4	.8	.4
Unemployment rate	%	7.32	7.30	6.71	6.50
	% change	-25.9	-.2	-4.2	-3.1
Private housing starts	mil.units	1.836	1.533	1.723	2.017
	% change	7.0	-2.7	12.4	17.1
Car sales	mil.units	10.4	9.7	10.2	11.1
	% change	13.0	-.3	5.4	9.0
Implicit GNP price deflator	1972=100	223.3	244.8	257.8	272.2
	% change	3.8	5.0	5.3	5.6
Consumer price index	1967=100	306.8	337.8	357.7	378.8
	% change	3.2	5.4	5.6	5.9
Producer price index (finished goods)	1967=100	292.2	324.5	345.9	369.7
	% change	2.5	6.7	6.6	6.9
Federal deficit	bil.$	-160.0	-139.0	-141.9	-137.4
	% change	-11.9	-9.7	2.1	-3.2
Personal income	bil.$	3024.1	3628.2	3991.3	4398.4
	% change	10.3	9.3	10.1	11.2
Prime rate	%	12.35	12.82	11.77	10.72
	% change	15.4	-4.3	-8.2	-8.9
Mortgage rate	%	14.13	13.86	12.85	11.64
	% change	5.2	-4.1	-7.3	-9.4
Currency plus demand deposits	bil.$	542.7	601.2	637.9	678.7
	% change	.6	5.5	6.1	6.4
Commercial and industrial loans	bil.$	442.1	469.3	484.3	511.9
	% change	7.0	2.9	3.2	5.7

Numbers in "% change" rows show percent changes over the previous year

> the economy by dragging us into the pits. What will somewhat higher rates do? Expect them to aid in the slowing of growth to a pace that will last longer -- through 1985 and beyond.

Other symptoms mentioned by those seeing the strong possibility of gloom around the start of next year are the overpriced dollar and the size of the trade deficit. The high value of the dollar is seen by KEDI and some others as a force that helps mitigate against a slump and against renewed inflation by keeping U.S. producers on their toes for fear that imports take a larger and larger share of their market. As to the trade deficit of this nation, imports represent a small portion of GNP and that share simply could not be influential enough to move the economy either way.

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, no updates took place.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1987 period. In 1984 and 1985 some increases in interest rates are expected. Relaxation will take place in late 1986 and in 1987.
4. In 1984 a good havest is assumed for this country, and low production of crops is expected in the U.S.S.R. and China. In 1985, assume U.S. record crops, and in the U.S.S.R. and China, average crops will take place. In 1986 good crops at all main producing countries are anticipated.
5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.

No drastic changes in internation relationships are anticipated.

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the July 1984 KEDI forecast. In 1985 and 1986 a general slowdown is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1535.3	1610.9	1640.2	1654.7	1667.2	1643.2	7.0
Index of industrial production	1967=100	147.7	159.7	163.0	164.3	166.1	163.3	10.6
Unemployment rate	%	9.6	7.9	7.5	7.0	6.9	7.3	-25.9
Capacity utilization rate	%	72.5	80.4	81.6	81.8	81.8	81.4	12.3
Private housing starts	mil.	1.703	1.968	1.907	1.790	1.679	1.836	7.0
Car sales	mil.	9.2	10.6	10.6	10.5	10.1	10.4	13.0

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross National product	bil. 72$	1643.2	1678.3	1682.9	1699.4	1711.3	1694.5	3.1
Index of industrial production	1967=100	163.3	167.0	167.8	169.2	170.9	168.7	3.3
Unemployment rate	%	7.3	7.0	7.0	7.1	7.1	7.0	-3.9
Capacity utilization rate	%	81.4	81.6	81.5	81.4	81.3	81.4	.0
Private Housing starts	mil.	1.836	1.589	1.632	1.610	1.474	1.576	-14.1
Car sales	mil.	10.4	10.2	10.1	9.8	9.7	10.0	-3.4

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1694.5	1721.5	1733.4	1743.8	1738.9	1738.9	2.6
Index of industrial production	1967=100	168.7	170.5	171.5	173.2	177.8	173.3	2.7
Unemployment rate	%	7.0	7.1	7.1	7.0	6.9	7.0	-.2
Capacity utilization rate	%	81.4	81.1	80.9	81.1	81.4	81.1	-.4
Private Housing starts	mil.	1.576	1.482	1.537	1.568	1.545	1.533	-2.7
Car sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0

*Historical data (1) % change over previous year

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

Data show the economy continued fairly rapid growth in the second quarter, but the pace was not at the torrid level of the first three months of the year. There are, at last, some signs that the pace is slowing which is an adjustment that has been overdue.

1. New homes were not selling as fast as in the prior month.
2. Leading indicators had a slight downward move of 0.1 percent in May.
3. Estimates of production in the steel industry have edged down a few million to 74-75 million ton range for the year as a whole.
4. Production of aluminum was off in June.
5. The production of paper and paperboard was barely changed between April and May.
6. Automakers revised their plans downwards. (See Section 4.2.)
7. Durable orders were off in June as compared to May. Indications are they will further decline in July.

The above downward or sideways or barely upward moves do not mean, "A recession is coming, a recession is coming!" The economy is strong and will continue to show healthy growth as evidenced by the following factors, for example.

1. Factory orders moved ahead in May and June after having declined in April. Orders for machinery were especially good.
2. New orders by manufacturers gained by over 3.5 billion, s.a., to reach $193.24 in May. Unfilled orders also moved ahead during that month. June figures won't be disappointing.
3. Construction spending was up by 1.8 percent in May and is expected to continue to show strength in June. Commerical and industrial building reflects more long-term contracts than residential building and is not as quick to change when interest rates move.

Expect GNP to expand by 7 percent this year. Look to slower and more balanced growth in 1985 and 1986. Any declines by industry are expected in those that are now close to capacity such as paper, aluminum, rubber and plastics, and electrical equipment. That is, declines there would be a return to more normal rates.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Gross national product	bil. 72$	1535.8	1610.9	1640.2	1654.7	1667.2	1643.2	7.0
Personal cons. expenditures	bil. 72$	1011.4	1044.1	1061.7	1078.0	1095.4	1069.8	5.8
Gross private dom. investment	bil. 72$	219.0	285.5	286.2	289.7	284.7	285.5	30.8
Net exports	bil. 72$	11.3	-8.3	-10.0	-14.1	-15.8	-12.1	--
Federal govt. purchases	bil. 72$	117.8	112.2	123.7	121.6	122.5	120.0	1.8
State and local purchases	bil. 72$	175.3	1773.	178.7	179.5	180.4	179.0	2.1

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Gross national product	bil. 72$	1643.2	1678.3	1689.2	1699.4	1711.3	1694.5	3.1
Personal cons. expenditures	bil. 72$	1069.8	1106.2	1119.4	1125.3	1137.5	1122.1	4.9
Gross private dom. investment	bil. 72$	286.5	283.1	279.0	281.9	280.4	281.1	-1.9
Net exports	bil. 72$	-12.1	-16.0	-15.8	-16.7	-17.7	-16.6	--
Federal govt. purchases	bil. 72$	120.0	123.8	124.3	125.8	127.1	125.3	4.4
State and local purchases	bil. 72$	179.0	179.0	181.2	182.3	183.1	182.7	2.1

Indicator	Unit	1985	1986 1	1986 2	1986 3	1986 4	1986	% (1)
Gross national product	bil. 72$	1694.5	1721.5	1733.4	1743.8	1756.9	1738.9	2.6
Personal cons. expenditures	bil. 72$	1122.1	1153.4	1165.5	1164.5	1169.3	1163.2	3.7
Gross private dom. investment	bil. 72$	281.1	281.1	272.6	270.0	286.0	277.1	-1.4
Net exports	bil. 72$	-16.6	-17.6	-16.7	-17.0	-16.6	-17.0	--
Federal govt. purchases	bil. 72$	125.3	128.3	129.5	130.8	131.5	130.0	3.8
State and local purchases	bil. 72$	182.7	184.8	185.1	185.9	186.7	185.6	1.6

*Historical data (1) % change over previous year

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

As has been stated here before, do not look to inflation to take off around the start of next year. KEDI does not share the view of some well-known economists that cite the deficit and the money supply as factors to blame in their forecast for inflation at annual rates of 9-10 percent about six months from now.

The forecast for the CPI and the PPI are revised downward in this issue.

	KEDI August Forecast		KEDI July Forecast	
	CPI	PPI	CPI	PPI
1984	3.2	2.5	3.4	2.7
1985	4.7	4.1	5.4	5.4
1986	5.4	6.7	5.7	6.9

The main reason for the change is due to the lower than expected increases in June. Prices, as measured by the CPI, were up just 0.2 percent in June which was the same as the change in May. Wholesale prices were essentially flat in June. KEDI agrees wholeheartedly with Robert Gough of Data Resources in his view that inflation is not a worry for consumers this year.

Before adjustment, the producer price index was off 0.1 percent in June, and it showed a modest gain of 2.2 percent over the year earlier figure. Prices for intermediate products rose 0.4 percent in June whereas prices for crude materials were off 1 percent.

In the CPI, the declines in gasoline prices and clothing costs offset the effect of small gains in food and housing costs. KEDI looks to gasoline prices being fairly level during the rest of the year with some slight downward move. Expect such prices to be flat in 1985 and to move ahead a bit in the latter part of 1986. Prices of other energy items are seen as stable but some further increases in the price of electricity is expected. The outlook for five categories of consumer prices is presented here in terms of percentage increase over the prior year:

	Food	Electricity	Gasoline	Medical Services	Entertainment
1985	2.0	3.0	.4	5.7	6.5
1986	2.2	2.5	2.0	6.0	7.0
1987	2.6	3.3	1.8	5.8	6.4

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Consumer price index, n.s.a.	1967=100	297.4	303.1	305.2	307.8	310.9	306.8	3.2
Producer price index, n.s.a.**	1967=100	285.2	290.6	291.4	292.5	294.3	292.2	2.5
Price deflators:								
GNP	1972=100	215.6	220.6	222.3	224.0	226.1	223.3	3.8
Personal cons. expenditures	1972=100	213.3	218.0	219.2	220.8	222.6	220.2	3.2
Gross private dom. investment	1972=100	215.4	218.5	220.5	220.2	221.5	220.2	2.2
Federal purchases	1972=100	233.6	283.5	242.0	247.3	250.2	244.5	4.8

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index, n.s.a.	1967=100	306.8	314.1	318.7	324.1	328.2	321.3	4.7
Producer price index, n.s.a.**	1967=100	292.2	297.8	301.5	305.8	311.8	304.2	4.1
Price deflators:								
GNP	1972=100	223.3	228.8	231.7	234.9	237.2	233.2	4.4
Personal cons. expenditures	1972=100	220.2	226.0	228.3	231.8	236.1	230.6	4.7
Gross private dom. investment	1972=100	220.2	220.8	220.8	223.2	216.8	221.1	0.4
Federal purchases	1972=100	244.5	250.5	256.0	259.5	261.1	256.8	5.0

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Consumer price index, n.s.a.	1967=100	321.3	333.1	336.2	340.3	345.1	338.7	5.4
Producer price index, n.s.a.**	1967=100	304.2	317.2	321.5	327.8	331.4	324.5	6.7
Price deflators:								
GNP	1972=100	233.2	240.2	243.5	246.4	248.9	244.8	5.0
Personal cons. expenditures	1972=100	230.6	239.2	242.7	246.9	249.3	244.5	6.0
Gross private dom. investment	1972=100	221.1	218.6	220.0	218.8	221.5	219.7	1.0
Federal purchases	1972=100	256.8	262.9	266.2	266.4	267.9	265.8	3.5

*Historical data (1) % change over previous year

1.22 NOMINAL GNP

(Table 1.22 on page 11)

Compared to the previous forecast, the main difference is in net exports. The new forecast shows larger export-import gaps than previously estimated.

There are two main reasons for the revision.

1. KEDI has upwardly revised its forecast of imports in the 1984-1986 period. Now, it is anticipated that more cars, machinery, iron ore, copper, natural rubber, and some other raw materials will be bought abroad because of the high international value of the dollar persisting during that period.

2. It is expected that the new Adminstration will pursue the policy of keeping the dollar strong on international markets: That is, the current rate of exchange will be preserved and action taken only if there are sharp increases.

Comparisons of the anticipated rates of inflation in other nations with the expected rates in this nation show inflation abroad will proceed at a faster pace. For instance, inflation of 8 percent forecast for England and 6.5 percent projected for Germany actually means the dollar will depreciate. The high rates of inflation in such countries act to depreciate the dollar. No action is needed here as time and the difference in the rates of inflation will do the adjusting. The way to keep the international value of the dollar fairly stable is to allow the gradual increase in its rate of exchange.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast is not essentially changed. Expect possible irregular movements in the unemployment rate for the rest of this year and miniscule movements in 1985.

However, the picture will change around the middle of next year and in the first part of 1986 when small increases in the rate are forecast. At the same time, employment totals are projected as showing continuous gains. For example, as is shown in Table 1.30, nonagricultural employment will average 102.4 million this year, 106.9 million in 1985 and 111 million in 1986. The jobless rate is seen here as averaging 6.99 percent in the third quarter

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3310.5	3553.3	3646.4	3707.2	3769.9	3669.2	11.1
Personal cons. expenditures	bil.$	2158.0	2276.5	2326.7	2380.7	2438.0	2355.5	9.2
Gross private dom. investment	bil.$	470.9	623.8	631.5	638.0	630.5	631.0	34.0
Net exports	bil.$	-9.0	-51.5	-58.0	-67.8	-68.5	-61.4	--
Federal purchases	bil.$	274.8	267.6	299.3	300.7	306.5	293.5	6.8
State and local purchases	bil.$	414.7	436.8	446.7	455.6	463.4	450.7	8.7

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3669.2	3840.5	3914.6	3992.1	4058.9	3951.5	7.7
Personal cons. expenditures	bil.$	2355.5	2500.0	2555.6	2608.1	2685.8	2587.4	9.8
Gross private dom. investment	bil.$	631.0	625.1	622.6	630.3	608.0	621.5	-1.5
Net exports	bil.$	-61.4	-66.0	-63.2	-63.1	-64.5	-64.2	--
Federal purchases	bil.$	293.5	310.1	318.2	326.5	331.9	321.7	9.6
State and local purchases	bil.$	450.7	471.3	481.8	480.3	497.7	485.3	7.7

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Gross national product	bil.$	3951.5	4135.7	4222.4	4297.1	4373.1	4257.1	7.7
Personal cons. expenditures	bil.$	2587.4	2758.7	2828.7	2874.5	2914.8	2844.2	9.9
Gross private dom. investment	bil.$	621.5	596.0	593.9	611.8	633.6	608.8	-2.0
Net exports	bil.$	-64.2	-63.2	-59.1	-58.0	-56.3	-59.1	--
Federal purchases	bil.$	321.7	337.3	344.7	348.4	352.3	345.7	7.5
State and local purchases	bil.$	485.3	506.9	514.2	520.3	528.7	517.5	6.6

*Historical data (1) % change over previous year

of this year and next year but edging up to 7.08 in the last part of 1985 and 7.12 in the first part of 1986 after which, it will move down again.

Joblessness in June dropped to an adjusted rate of 7.1 percent from the 7.5 percent rate of May. That drop is too large. Expect some upward movement in July or August. On the dimmer side, it was reported that just 29 percent of the jobless received any benefits in June. Unemployment for teen-agers moved down from 19 to 17.6 percent in June while the rate for adult men moved from 6.5 percent in May to 6.3 percent in June. The average workweek was the same both months: 35.3 hours for production workers, and 40.6 hours for those in manufacturing.

The main increases in employment are expected in the following industries during 1985: electronics, office equipment, hotels and motels, fast food, trucking, clay and stone, machine tools, defense and aerospace, and farm machinery and equipment.
Look to employment to be lower next year than this year in the following: residential construction, rubber and plastics, aluminum, paper and products, and chemicals.

1.41 HOUSING

(Table 1.41 on page 15)

The forecast is not changed. KEDI maintains the position that housing has passed its peak. Look to some declines in both of the next two years. As the table shows, single family starts will move from a total forecast of 1.15 million this year down to .75 in 1985 and edging down to .94 in 1986. Multi-family starts show a similar pattern.

What will not be declining? The cost of a home. Despite low inflation, the cost of a new home is projected here as going up about 8 percent in each of the next two years from an average of $97,600 this year to $113,300 in 1986.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.3
Civilian labor force	mil.	111.6	112.5	113.6	114.7	115.7	114.2	2.4
Employment	mil.	100.8	103.7	105.1	106.7	107.7	105.8	5.3
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Nonagriculture	mil.	97.5	100.4	101.7	103.3	104.3	102.4	5.4
Unemployment rate	mil.	9.58	7.87	7.47	6.97	6.91	7.31	-25.9

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.2	116.8	117.9	119.1	120.3	118.5	3.8
Employment	mil.	105.8	108.7	109.6	110.7	111.7	110.2	4.1
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	0
Nonagriculture	mil.	102.4	105.4	106.3	107.4	108.4	106.9	4.3
Unemployment rate	mil.	7.31	6.95	7.01	7.05	7.08	7.02	-3.9

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	118.5	121.4	122.5	123.7	124.9	123.1	3.9
Employment	mil.	110.2	112.8	113.9	115.1	116.3	114.5	3.9
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	0
Nonagriculture	mil.	106.9	109.4	110.5	111.7	112.9	111.1	3.9
Unemployment rate	mil.	7.02	7.12	7.05	6.96	6.91	7.01	-.2

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*Historical data (1) % change over previous year

HOUSING

Construction of new housing was up 5.3 percent in June over the prior month and 9 percent higher than a year ago. That increase is viewed here as temporary.

Other signs give a clue to the movement ahead which is not seen as upward.

1. Starts of single-family houses declined by 7.2 percent. They had also gone down in May from the previous month.
2. KEDI shares the view that it is getting harder and harder to make home sales in the face of tighter financing and stretched family incomes.
3. Builders reported that sales of townhouses and condominiums were off for about one-half of those reporting.
4. New home sales were off by 4.4 percent to an adjusted annual rate of 612,000.
5. The bulge in housing starts in June was unique and not part of any pattern of growth. KEDI shares the view that gradual declines are in the picture for the rest of this year. Despite the start figures, there are signs of weakness as Michael Carliner of Chase Econometrics expressed. Monthly mortgage rates have been going up bit by bit for several months, and new houses can't continue to be built while the potential buyers are priced out of the market.

The forecast shows starts will move down but not drastically.

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast is essentially the same. KEDI maintains the position that sales have peaked, but do not look to any abrupt declines as the downward movement in 1985 and 1986 that is projected is relatively small.

In mid-July, U.S. made autos were selling at a pace 12.4 percent above the same period of a year ago after having been about flat in the first part of the month. The mid-July total represented an annual rate of 8.3 million. The pace will slow some during the rest of the year, leaving 1984 with total annual domestic sales of 8.0 million forecast by this Institute. U.S. made autos are projected at 7.5 million for 1985 and 7.3 for 1986.

TABLE 1.41 HOUSING

(Quarterly data seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984 1	 2	 3	 4	1984	% (1)
Single-family housing starts	mil.	1.068	1.278	1.139	1.142	1.047	1.150	7.8
Multifamily housing starts	mil.	.635	.690	.768	.648	.632	.684	5.8
Mobile home shipments	mil.	.296	.298	.292	.307	.302	.300	4.2
Permits authorized	mil.	1.594	1.809	1.760	1.698	1.652	1.730	8.5
1-family unit price, new**	tho.$	89.8	94.7	96.5	98.7	100.3	97.6	8.5
1-family unit price, exist.**	tho.$	82.5	86.5	88.7	91.5	92.2	89.7	8.8

Indicator	Unit	1984	1985 1	 2	 3	 4	1985	% (1)
Single-family housing starts	mil.	1.150	.968	.974	.980	.872	.948	-17.6
Multifamily housing starts	mil.	.684	.621	.658	.630	.602	.628	-8.3
Mobile home shipments	mil.	.300	.275	.281	.284	.236	.269	-10.3
Permits authorized	mil.	1.730	1.514	1.562	1.530	1.402	1.502	-13.2
1-family unit price, new**	tho.$	97.6	104.8	105.2	107.6	108.3	106.6	9.3
1-family unit price, exist.**	tho.$	89.7	94.3	97.3	98.9	100.9	97.9	9.1

Indicator	Unit	1985	1986 1	 2	 3	 4	1986	% (1)
Single-family housing starts	mil.	.948	.911	.943	.947	.938	.935	-1.5
Multifamily housing starts	mil.	.628	.571	.594	.621	.607	.598	-4.7
Mobile home shipments	mil.	.269	.230	.232	.257	.264	.246	-8.6
Permits authorized	mil.	1.502	1.340	1.414	1.478	1.563	1.449	-3.5
1-family unit price, new**	tho.$	106.6	109.2	111.8	114.9	117.3	113.3	6.3
1-family unit price, exist**	tho.$	97.9	101.9	104.7	108.0	110.2	106.2	8.5

*Historical data (1) % change over previous year

AUTOMOBILES

KEDI shares the view that the high sales rate taking place currently reflects buying taking place earlier than it would have due to the threat of strikes in the auto industry and the consumer anticipating higher rates for financing over the coming months. That is, instead of buying that new car a few months from now, many have moved up their purchase plans due to these psychological factors. This does not affect the year-end totals.

1.50 BUDGETS

(Table 1.50 on page 19)

The forecast of the federal budget deficits has been revised slightly. Again, it needs to be emphasized that the size of the deficits do not represent a threat to the U.S. economy. The revision here is due, in part, to tax receipts being somewhat larger than had been anticipated. Whereas the red-ink total was projected at $168 billion for calendar 1984, that has been decreased to $160 billion -- almost 11 percent lower than in calendar 1983. The total for 1985 is projected close to 4 percent lower than this year. Many economists had been predicting continuous increases in the size of the deficit to $200-$300 billion. NOW they are not talking about such big numbers any more.

Latest Department of Commerce figures for the final estimate of first quarter GNP this year significantly reduced the figure for the federal deficit for that time from a seasonally adjusted total of $170.7 billion to $161.3 billion.

Both the Office of Budget Management and the Congressional Budget Office are constantly revising their forecasts downward for the red-ink total, and with each revision, they have come closer to the range of figures KEDI has maintained.

Keeping a perspective on the size of the income and outgo gap in Washington can be done by comparing it to current and projected SURPLUSES AT THE STATE AND LOCAL level. Considering the two alters the picture. By subtracting state and lcoal surpluses from the federal deficits presents an adjusted total of government red ink at about $103 billion for calendar 1984

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Passenger cars:								
Total sales	mil.	9.2	10.6	10.6	10.5	10.1	10.4	13.0
Domestic	mil.	6.8	8.3	8.2	8.0	7.5	8.0	17.6
Imported	mil.	2.4	2.3	2.4	2.4	2.6	2.5	1.0
Dealers inventories, n.s.a.	mil.	1.4	1.6	1.3	1.3	1.3	1.4	.0
Factory shipments	mil.	6.7	8.3	8.0	7.9	6.9	7.8	16.4
Light-duty trucks:								
Total sales	mil.	2.5	3.0	3.2	3.1	2.8	3.0	20.0

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Passenger cars:								
Total sales	mil.	10.4	10.2	10.1	9.8	9.7	10.0	-3.8
Domestic	mil.	8.0	7.7	7.7	7.4	7.3	7.5	-6.2
Imported	mil.	2.5	2.5	2.5	2.4	2.4	2.5	.4
Dealers inventories, n.s.a.	mil.	1.4	1.6	1.7	1.6	1.5	1.5	.0
Factory shipments	mil.	7.8	7.6	7.7	7.3	7.1	7.4	-5.1
Light-duty trucks:								
Total sales	mil.	3.0	2.5	2.8	3.0	2.8	2.8	-6.7

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Passenger cars:								
Total sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0
Domestic	mil.	7.5	7.1	7.4	7.2	7.3	7.3	-2.7
Imported	mil.	2.5	2.4	2.3	2.4	2.5	2.4	-.4
Dealers inventories, n.s.a	mil.	1.5	1.9	1.8	1.7	1.5	1.5	.1
Factory shipments	mil.	7.4	7.2	7.3	7.0	6.9	7.3	-2.7
Light-duty trucks:								
Total sales	mil.	2.8	2.7	2.8	2.7	2.6	2.7	-3.6

*Historical data (1) % change over previous year

BUDGETS

as can be seen in the table here. (In billions of $)

	Federal Deficit	(less) State & Local Surpluses	(equals) Total
1983	-182.0	51.4	-130.6
1984	-160.0	56.7	-103.3
1985	-154.0	69.3	-84.7
1986	-139.0	77.4	-61.6
1987	-134.0	80.5	-53.8

Presented this way shows the real tolerable levels of the deficits in the public area.

ASSUMPTION: KEDI assumes that the "downpayment package" of $150 billion in deficit reduction at the federal level will be enacted. Up to this point, the legislature has passed and the president has signed $50 billion in tax increases and $13 billion in spending cuts. The remaining $80-90 billion has to be realized. If not, the possibility of rekindled inflation does become real because too much demand would be generated by the government.

Calculations here show that if the additional $80 billion is not cut, inflation would go up by an additional 2.5 percentage points in 1985, 3.4 percentage points in 1986, and 4.1 in 1987 -- coming closer to double digit rates. Again, it is assumed here that the total package will be adopted and inflation will not zoom ahead.

1.60 INCOME

(Table 1.50 on page 21)

The forecast is the same. Personal income is expected to grow by 10.8 percent this year, 9.3 percent in 1985, and 7.5 percent in 1986. Such respectable numbers hardly point the way to recession.

Recent data on personal income support the projection that has been held here. Personal income went up by 0.8 percent in June after having increased 0.4 percent in May. Savings as a percentage of disposable income rose to 6.1 percent in June from the revised figure of 5.6 for May. Wages and salaries increased 0.7 percent in June.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	298.5	301.6	307.6	318.5	326.1	313.5	5.9
Corpor.profits tax accruals	bil.$	60.4	73.0	75.8	79.7	81.8	77.6	28.5
Surplus/deficit	bil.$	-182.0	-161.3	-160.2	-158.1	-160.4	-160.0	-11.9
State and local governments:								
Income taxes	bil.$	110.5	116.7	119.6	125.8	128.2	122.6	10.9
Corpor.profits tax accruals	bil.$	19.5	19.7	21.7	22.3	23.1	21.7	30.7
Surplus/deficit	bil.$	51.4	53.9	55.6	57.1	60.3	56.7	10.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	313.5	337.8	343.1	351.6	359.7	348.1	11.0
Corpor.profits tax accruals	bil.$	77.6	84.3	86.2	88.7	89.1	87.1	12.2
Surplus/deficit	bil.$	-160.0	-158.2	-156.3	-154.2	-147.1	-154.0	-3.8
State and local governments:								
Income taxes	bil.$	122.6	130.7	135.1	138.9	140.3	136.3	11.2
Corpor.profits tax accruals	bil.$	21.7	24.8	26.2	27.5	28.3	26.7	23.0
Surplus/deficit	bil.$	56.7	63.6	68.9	71.0	73.8	69.3	22.2

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	348.1	370.3	377.5	381.6	384.3	378.4	8.7
Corpor.profits tax accruals	bil.$	87.1	91.3	92.1	94.6	98.3	94.1	8.0
Surplus/deficit	bil.$	-154.0	-145.3	-142.6	-136.1	-132.4	-139.0	-9.7
State and local governments:								
Income taxes	bil.$	136.3	142.1	143.2	144.1	145.9	143.8	5.6
Corpor.profits tax accruals	bil.$	26.7	29.7	30.4	31.3	32.8	31.1	16.3
Surplus/deficit	bil.$	69.3	75.1	76.8	78.1	79.7	77.4	11.7

*Historical data (1) % change over previous year

INCOME

It is of interest, that interest income gained 1.3 percent in June. Those that complain about interest rates and how bad high rates are for the economy should also look at the other side: High interest rates mean consumers getting MORE ON INTEREST INCOME. The higher rates of interest boost consumer spending and saving. Interest income is an important part of personal income as it amounts to almost $.5 billion out of the $3 billion in personal income.

The projection by KEDI of average factory earnings is also bright and shows no signs of recession. Average weekly earnings are seen here as going up between 5 and 6 percent for the 1984-1986 period. Such figures are in line with the projections of the inflation rate. Such increments of wage gains do not amount to any kind of real inflationary pressure from the earnings side.

White-collar wage gains have shown moderation since last year and will continue to be moderate. The Bureau of Labor Statistics reported that such salaries gained between 3 and 6 percent between last spring and this spring whereas such gains were averaging 7 percent in the 1970's and 9 percent in the early part of this decade when inflation was a real concern.

During the second quarter of this year, average earnings of full-time workers went up 5.4 percent, whereas the inflation rate gained 4.3 percent -- families have been staying ahead of inflation. That pattern will continue.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

The forecast of the money supply remains essentially the same. For this year, M1 and M2 are projected as being well within the Federal Reserve targets:

M1 target range, 4-8%	Forecast at KEDI, 6.6%
M2 target range, 6-9%	Forecast at KEDI, 8.4%

Moderate growth is also projected for the next two years:

M1 growth in 1985, 5.0%	M1 growth in 1986, 5.5%
M2 growth in 1985, 9.2%	M2 growth in 1986, 9.6%

Data for some credit components have been revised upwards:

1. Consumer credit. Recent development here indicate that demand for consumer credit will remain strong. Such credit zoomed ahead $10.2 billion

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2742.1	2920.5	2984.8	3059.9	3131.3	3024.1	10.3
Personal disposable income	bil.$	2335.6	2502.2	2557.6	2615.8	2677.0	2588.2	10.8
Compensation of employees	bil.$	1990.2	2113.4	2157.9	2147.9	2286.3	2176.4	9.3
Corporate after tax profits	bil.$	130.6	150.6	154.5	157.0	161.5	155.9	19.4
Personal saving	bil.$	113.6	152.5	154.0	156.8	158.4	155.4	36.8
Average weekly earnings	$	354.5	366.2	371.2	375.0	381.0	373.4	5.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	3024.1	3210.9	3275.7	3344.6	3435.5	3316.7	9.7
Personal disposable income	bil.$	2588.2	2742.4	2797.5	2854.1	2935.5	2832.4	9.4
Compensation of employees	bil.$	2176.4	2331.4	2347.3	2387.5	2399.2	2366.4	8.7
Corporate after tax profits	bil.$	155.9	165.0	168.4	170.1	171.4	168.7	8.2
Personal saving	bil.$	155.4	160.3	158.7	161.2	163.4	160.9	3.5
Average weekly earnings	$	373.4	386.1	392.0	398.2	402.0	394.6	5.7

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Personal income	bil.$	3316.7	3526.4	3605.8	3660.1	3708.3	3625.2	9.3
Personal disposable income	bil.$	2832.4	3014.0	3085.1	3134.4	3178.1	3102.9	9.6
Compensation of employees	bil.$	2366.4	2458.3	2469.1	2516.8	2539.8	2496.0	5.5
Corporate after tax profits	bil.$	168.7	175.1	179.3	184.0	188.8	181.8	7.7
Personal saving	bil.$	160.9	167.2	166.5	168.3	170.2	168.1	4.4
Average weekly earnings	$	394.6	407.9	411.3	416.0	422.0	414.3	5.0

*Historical data (1) % change over previous year

MONEY AND CREDIT

in May. Federal Reserve policy is obviously not terribly restrictive or there would not have been such an expansion.

2. Despite the moving ahead of mortgage rates, a record amount of mortgage money was lent by savings institutions in June. Most of the activity in June was in adjustable-rate mortgages. In the first half of this year, $84.8 billion was borrowed whereas the total for the first part of last year came to $58.3 billion.

KEDI anticipates the recent meeting (July) of the Fed's Open Market Committee kept the policy of monetary and credit restraint. It is not expect that they eased their policies.

KEDI shares the view of R.G. Dederick of Northern Trust Co. in Chicago that a firm hold on credit is the policy of choice of the Fed's in order to help slow growth and ward off any inflation threats. Some further slight tightening can be anticipated.

First, even though the economy is expected to slow some in the latter part of this year, growth will still be robust enough to warrant continuation of monetary restraints.

Secondly, there are no indications that the demand for credit will slow in the coming months. On the contrary, consumer and business is seen as remaining strong. These are not conditions that lead to easing.

1.80 INTEREST RATES, YIELDS, AND SECURITY PRICES

(Table 1.80 on page 25)

KEDI respects the opinion of Paul Volcker that rate pressures are dropping. In answering questions from members of the Joint Economic Committee on July 30, he indicated that he felt there was not as much pressure pushing interest rates up as there was a few months ago.

In early July, President Reagan forecast lower interest rates for later this year. If any such move does take place, KEDI sees it as temporary.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

					1984			%
Indicator	Unit	1983*	1	2	3	4	1984	(1)
Currency and demand deposits, M1	bil.$	509.0	532.7	537.3	547.5	553.1	542.7	6.6
Time deposits, adjusted,M2	bil.$	2115.9	2217.3	2264.0	2318.2	2378.9	2294.6	8.4
Consumer instal. credit	bil.$	387.9	404.7	421.5	428.4	435.6	435.6	12.2
Commerc. & indus. loans at banks	bil.$	413.0	418.7	425.0	433.1	422.1	442.1	7.0
Large denomination time dep.	bil.$	307.5	340.7	353.1	346.2	352.1	348.0	13.2
Mortages at S&L Assns.	bil.$	493.4	498.9	510.5	518.7	528.9	528.9	7.2

					1985			%
Indicator	Unit	1984	1	2	3	4	1985	(1)
Currency and demand deposits, M1	bil.$	542.7	560.1	565.8	573.0	581.1	570.0	5.0
Time deposits, adjusted,M2	bil.$	2294.6	2428.3	2479.4	2530.4	2583.2	2505.3	9.2
Consumer instal. credit	bil.$	435.6	441.2	446.8	453.2	456.8	456.8	4.8
Commerc. & indus. loans at banks	bil.$	442.1	444.8	447.1	450.7	456.2	456.2	3.2
Large denomination time dep.	bil.$	348.0	353.8	358.7	361.4	366.8	360.2	3.5
Mortages at S&L Assns.	bil.$	528.9	530.1	533.0	536.6	542.1	542.1	2.5

					1986			%
Indicator	Unit	1985	1	2	3	4	1986	(1)
Currency and demand deposits, M1	bil.$	570.0	588.2	595.4	605.5	615.8	601.2	5.5
Time deposits, adjusted,M2	bil.$	2505.3	2643.4	2711.2	2775.8	2852.1	2745.6	9.6
Consumer instal. credit	bil.$	456.8	460.1	462.8	465.8	468.2	468.2	2.5
Commerc. & indus. loans at banks	bil.$	456.2	457.8	458.1	460.5	469.3	469.3	2.9
Large denomination time dep.	bil.$	360.2	368.2	373.8	380.4	386.1	377.4	4.8
Mortages at S&L Assns.	bil.$	542.1	543.2	547.4	553.9	561.5	561.5	3.6

*Historical data (1) % change over previous year

INTEREST RATES, YIELDS, AND SECURITY PRICES

The recently expressed view of Lacy H. Hunt, a chief economist, that interest rates would go higher during the rest of the year and in 1985 is shared here. Some economists cite the drop in unemployment as sealing credit-tightening moves by the Fed. KEDI agrees with J.D. Paulus of Morgan Stanley & Co. that the credit growth and concern over heated inflation will keep the Fed's on the restrictive side.

Back in January of this year the vast majority of economists surveyed by The Wall Street Journal pointed to a lowering of interest rates in the face of a greatly slowed economy. On page 2 of the July 2, 1984 paper, the forecast made in January for the yields on 3-month Treasury Bills averaged 8.76 percent for the end of June with a range of 8.2 to 10 percent. The actual rate as of June 29 was 9.90 percent.

KEDI HAD FORECAST A RATE OF 9.70 back in January. (Table 1.80, page 31.) KEDI was closer to the actual number for T-bill yields than 22 of the 24 forecasters cited.

Looking at the data forecast and the actual results show the vast majority cited in The Wall Street Journal were significantly off the mark. Most forecasters looked to interest rates to ease. KEDI did not expect that to happen -- in January or now. This Institute was correct in forecasting INCREASES in interest rates -- opposite to most forecasts of declines.

This Institute projects 3-mo. Treasury bills yield of 10.16 in the first quarter of next year and sees it moving up throughout the year to an average of 11.09 in the last quarter of 1985.
No significant changes in data for stocks and bonds markets took place in this forecast when compared to the last forecast.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo yield)	%	8.61	9.17	9.74	10.03	10.11	9.76	13.4
Prime rate	%	10.70	11.08	12.31	13.00	13.00	12.35	15.4
Conventional mortgage rate	%	13.43	13.57	13.98	14.39	14.58	14.13	5.2
Aaa corporate bonds rate	%	12.04	12.28	12.97	13.15	13.24	12.91	7.2
20 years Govt. bonds yield	%	11.34	12.16	12.67	12.91	13.24	12.75	12.2
Standard & Poor's 500 Average	1941-43 =100	160.41	160.51	160.02	152.16	155.19	156.97	-.2

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Treasury bills (3 mo yield)	%	9.76	10.16	10.81	11.04	11.09	10.78	10.5
Prime rate	%	12.35	13.25	13.30	13.50	13.50	13.39	8.4
Conventional mortgage rate	%	14.13	14.61	14.50	14.38	14.31	14.45	2.3
Aaa corporate bonds rate	%	12.91	13.31	13.40	13.34	13.28	13.33	3.3
20 years Govt. bonds yield	%	12.75	13.38	13.51	13.59	13.70	13.55	6.3
Standard & Poor's 500 Average	1941-43 =100	156.97	156.14	153.14	156.92	158.11	156.08	-.6

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Treasury bills (3 mo yield)	%	10.78	11.12	10.92	10.36	10.14	10.64	-1.8
Prime rate	%	13.39	13.50	13.06	12.72	12.00	12.82	-4.3
Conventional mortgage rate	%	14.45	14.36	14.15	13.71	13.20	13.86	-4.1
Aaa corporate bonds rate	%	13.33	13.63	13.47	13.07	12.68	13.21	-.9
20 years Govt. bonds yield	%	13.55	13.61	13.71	13.58	13.32	13.56	.0
Standard & Poor's 500 Average	1941-43 =100	156.08	151.17	149.14	151.20	158.16	152.42	-2.3

*Historical data (1) % change over previous year

2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

This August 1984 issue describes the relationships between the Kent Model's Interindustry Division and the Aggregative Division.

5.30 Relationships of the Interindustry and Aggregative Divisions

A majority of existing economic models are based on the Keynesian (aggregative) theory characterized, sometimes, as representing the demand side of the economy of a given country. Other existing models use the Leontief's (interindustry) system that, in Klein's (1978) interpretation, represents the supply side of the economy. As pointed out by Hansen (1969), theoretical attempts to synthesize the Keynesian and Leontief's approaches are abundant. Practical applications are still scarce, however.

Until the present time there has not been developed a procedure synthesizing the Keynesian-Leontief approaches that would have been generally accepted by economic models builders. In the Kent Model, the way of synthesizing both approaches is outlined in Figure 2. and the following text.

THE INTERINDUSTRY AND AGGREGATIVE RELATIONSHIPS

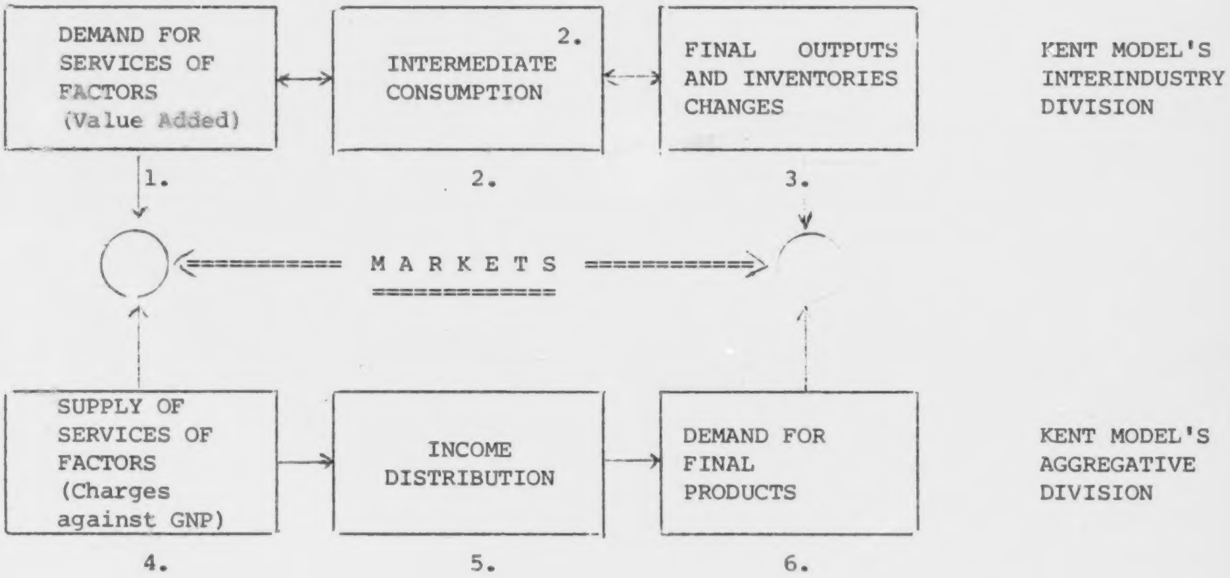
DEMAND FOR SERVICES OF FACTORS (Value Added)
2.
INTERMEDIATE CONSUMPTION
FINAL OUTPUTS AND INVENTORIES CHANGES
KENT MODEL'S INTERINDUSTRY DIVISION
1.
2.
3.
MARKETS
SUPPLY OF SERVICES OF FACTORS (Charges against GNP)
INCOME DISTRIBUTION
DEMAND FOR FINAL PRODUCTS
KENT MODEL'S AGGREGATIVE DIVISION
4.
5.
6.

Figure 2.

The Kent Model's synthesis is based on these assumptions:

(a) The Loentief's (interindustry) system represents activities of producers of intermediate and final commodities (Figure 2., boxes 1.,2., and 3.,) In order to produce, producers demand and consume intermediate commodities (Figure 2., box 2.) and services of factors of production such as labor, interest, rent, and others (Figure 2.,, box 1.)

(b) The Keynesian (aggregative) system represents activities of final consumers who demand final commodities (Figure 2., box 6.) in exchange for supply of their services (Figure 2., box 4.)

(c) The aggregative and the interindustry systems are linked by two types of markets:

- markets for final commodities (Figure 2., right circle)
- markets for services of factors of production (Figure 2., left circle)

Market simulation mechanisms

In Figure 2., boxes 1.-3. represent production of commodities and consumption of intermediate commodities and services of factors of production, by producers. Boxes 4.-6. represent flows of income received by factors of production such as compensation for labor and other services (box 4.), distribution of that income through taxes, insurance, transfers, and other payments, and final disposition of income or final demand (box 6.)

The producer system and the final consumer system are linked through markets. On markets for final commodities (Figure 2., right circle) commodities produced by producers (Figure 2., box 3.) are offered to final consumers who spend their income to acquire them (Figure 2., box 6.) On markets for services of factors (Figure 2., left circle) such services are being demanded by producers (Figure 2., box 1.) and supplied by factors (Figure 2., box 4.)

Market simulation mechanisms built into the Kent Model refer to both types of markets and provide the basic linkage of the Leontief's and the Keynesian systems. Incporporation of markets brings the Model closer to the reality, when compared to those models that use the production-consumption approach. The market simulation mechanism used in the Kent Model is described in the June 1984 issue of this Survey (Vol.9, No.10. pp. 27,28.) (CONTINUED)

3.00 COMPARISONS OF ACCURACY PREDICTIONS

In this issue, Implicit GNP Price Deflator in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.4, April 1984, Table 7.1. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Implicit GNP Price Deflator for 1983,
1972 = 100)

Actual figure: 215.6

Forecaster(and page in source)	Date of Forecast	Forecast	Difference Actual-Forecast
Albert T. Sommers, The Conference Board,pg 9	11/17/82	217.2	1.6
Economic Department, U.S. Trust Company of New York, pg 10	12/82	217.7	2.1
Walter D. Fackler, The University of Chicago, pg 13	12/8/82	217.6	2.0
First Interstate Bank of California, pg 16	10/82	219.6	4.0
Peter L. Bernstein, Inc., pg 18	11/2/82	217.1	1.5
Armco, pg 19	11/3/82	218.3	2.7
Chemical Bank, pg 20	11/9/82	218.8	3.2
American Statistical Association and National Bureau of Economic Research, pg 21	12/82	218.2	2.6
Manufacturers Hanover Trust Company, pg 22	12/82	218.0	2.4
Metropolitan Life Insurance Company, pg 24	12/1/82	218.8	3.2
The Fidelity Bank, pg 25	12/8/82	216.7	1.1
Citibank Economic Forecast Service, pg 26	12/9/82	218.5	2.9
Chase Econometrics, pg 29	29/12/82	217.7	2.1
K.E.D.I., Inc., pg 30	1/1/83	218.1	2.5
Harris Bank, pg 32	5/1/83	218.4	2.8
Morgan Guaranty Trust Company of New York,pg 35	7/1/83	217.4	1.8

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 4.00 HISTORICAL DATA SOURCES (CONTINUED)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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President: Dr. Vladimir J. Simunek

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This forecast uses the August 20,1984, U.S. Department of Commerce second estimates of 1984:2 National Income and Product data. Also used is the August 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

Look to slow growth over the next two years. No recession and no out-of-control inflation are expected. KEDI has a high degree of reliability and is not one of the forecasters that "flunk" as Time magazine described in the August 27 issue (but never mentioned KEDI). The outlook presented here has been much more accurate than the Blue Chip Consensus cited in the Time article. This Institute has written a short letter to the editors of that magazine but graciously has not taken umbrage. REAL GROWTH The scarce indications of slowing were balanced by the continued signs of rapid growth. Do not expect a slackening in the pace of consumer and business spending to bring growth to a more long-lasting pace but look to the after-effects of strikes in the auto and coal industry to lead to less growth. PRICES Anticipate the rate of change in the CPI to gradually increase from this year through 1986. The Producer Price Index will show more rapid gains. EMPLOYMENT AND LABOR Adjustments in the forecast are minute. The increase in July is considered a fluke by KEDI and others. Joblessness is not on the way back up. HOUSING The anticipated slowing in the housing industry is becoming reality as July starts were down as were building permits. Builders are still too optimistic about the future in this industry. AUTOMOBILES The forecast remains the same with total sales of U.S. made autos being forecast here at 8 million for this year. It is estimated here that a strike is almost certain and that it will last 30-45 days. BUDGETS Expect the deficit to keep on declining. Administration and CBO forecast and those of KEDI have come closer together. Look to deficits moving down toward $132 billion in 1989. INCOME The revision of the forecast of personal disposable income now shows it gaining 12.8 percent this year over last year. Consumer spending is not going to increase or decrease significantly. MONEY AND CREDIT Expect the Fed to do little while they keep a fairly firm hold on money and credit. Consumer credit demands will remain strong, and commercial loans will grow in volume. INTEREST RATES, YIELDS, AND SECURITIES PRICES Do not expect any downturns here. Look to some interest rate hikes by early next year.

0.02 OVERVIEW

General Outlook

As has been stated here before, there is no danger of any recession. The outlook here is essentially the same with only fractional adjustments to the data. For this year and through 1986, general growth of a mild nature has been and is the norm seen here. Inflation has not been a problem this year, and it won't be one in 1985 or 1986 either even though the rate projected is in the area of 5.5 percent in terms of changes in the CPI from one year to the next in 1986 and 1987. Such rates are still on the low side, historically speaking. KEDI's general forecast is presented:

1984

A continuation of the growth is expected with unemployment showing a sharp drop as compared to the previous year. Very moderate inflation along with fair recovery in housing and autos make this year quite good, indeed.

1985

Expect a slowing down of the recovery with growth becoming more widespread throughout the economy. Joblessness will hardly change, but housing and autos will not reach the levels of 1984. Look to more normal output in rubber and plastics, paper and board, cement, and electrical machinery. In the basic industries, some small declines or flat performances are anticipated as compared to the prior year. Tight policies as concerns money and credit are going to continue this year and there will be some increases in taxes. Capacity utilization is projected as being essentially the same.

1986

The economy will continue to show expansion but at a very low rate as compared to the current year with primary industries and construction reflecting declines--especially during the first part of the year. In the latter part of 1986, look to gradual gains. The jobless rate is seen as moving up fractionally toward the middle of the year and barely inching down in the second half to finish the year at about the same level as expected in the last quarter of 1984. Fed policy is seen as relaxing just a bit with lower interest rates.

KEDI FORECAST HIGHLIGHTS

TABLE 0.00

Indicator	Unit	1984	1986	1987	1988
Gross national	bil.72$	1643.9	1737.8	1800.4	1890.4
product	% change	7.1	2.5	3.6	5.0
Index of industrial	1967=100	163.2	173.2	184.3	200.9
production	% change	10.5	2.8	6.4	9.0
Capacity	%	81.4	81.1	81.9	82.2
utilization	% change	12.3	-.2	1.0	.4
Unemployment	%	7.34	7.06	6.77	6.55
rate	% change	-23.4	-.1	-4.1	-3.2
Private housing	mil.units	1.817	1.513	1.699	1.991
starts	% change	5.9	-3.5	12.3	17.2
Car	mil.units	10.4	9.7	10.3	11.1
sales	% change	13.0	-3.0	5.4	9.0
Implicit GNP	1972=100	223.1	244.0	257.2	271.6
price deflator	% change	3.5	5.1	5.4	5.6
Consumer price	1967=100	306.8	337.8	357.1	378.2
index	% change	3.2	5.4	5.7	5.9
Producer price index	1967=100	292.2	324.5	346.2	370.4
(finished goods)	% change	2.5	6.7	6.7	7.0
Federal	bil.$	-163.3	-140.4	-141.9	-137.4
deficit	% change	-10.1	-9.5	2.1	-3.2
Personal	bil.$	3021.4	3583.3	3945.2	4387.1
income	% change	10.2	8.8	10.1	11.2
Prime	%	12.35	12.82	11.77	10.72
rate	% change	15.4	-4.3	-8.2	-8.9
Mortgage	%	14.14	13.79	12.85	11.64
rate	% change	5.3	-5.1	-7.3	-9.4
Currency plus	bil.$	542.9	601.8	639.1	680.0
demand deposits	% change	6.7	5.4	6.2	6.4
Commercial and	bil.$	442.1	469.7	485.2	512.9
industrial loans	% change	7.0	3.0	3.3	5.7

Numbers in "% change" rows show percent changes over the previous year

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, no updates took place.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.
3. High interest rates and restrictive monetary and credit policies wil generally prevail in the 1984-1987 period. In 1984 and 1985 some increases in interest rates are expected. Relaxation will take place in late 1986 and in 1987.
4. In 1984 a good harvest is assumed for this country, and low production of crops is expected in the U.S.S.R. and China. In 1985, assume U.S. record crops, and in the U.S.S.R. and China, average crops will take place. In 1986 good crops at all main procucing countries are anticipated.
5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.

No drastic changes in international relationships are anticipated.

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the September 1984 KEDI forecast. In 1985 and 1986 a general slowdown is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years. Compared to the August forecast, main changes pertain to the Gross National Product, and price indicators. Forecast data for these have been slightly increased. These increases are not significant, however. Forecast data for 1984-1989 do not show any recession or a major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining. The export-import gap is seen a closing to a more sustainable level in 1986 and the following years.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1535.3	1610.9	1640.8	1655.7	1668.1	1643.9	7.1
Index of industrial production	1967=100	147.7	159.7	163.0	164.2	165.8	163.2	10.5
Unemployment rate	%	9.6	7.9	7.5	7.1	6.9	7.3	-23.4
Capacity utilization rate	%	72.5	82.4	81.6	81.8	81.7	81.4	12.3
Private housing starts	mil.	1.703	1.968	1.898	1.740	1.662	1.817	5.9
Car sales	mil.	9.2	10.6	10.6	10.5	10.1	10.4	13.0

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1643.9	1679.1	1690.2	1700.2	1712.1	1695.4	3.1
Index of industrial production	1967=100	163.2	167.1	168.7	169.0	170.1	168.7	3.4
Unemployment rate	%	7.3	7.0	7.1	7.1	7.1	7.1	-3.7
Capacity utilization rate	%	81.4	81.6	81.5	81.2	81.0	81.3	-.1
Private housing starts	mil.	1.817	1.570	1.626	1.603	1.463	1.586	-13.7
Car sales	mil.	10.4	10.2	10.1	9.8	9.7	10.0	-3.4

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1695.4	1720.1	1730.2	1743.9	1757.0	1737.8	2.5
Index of industrial production	1967=100	168.7	170.4	171.4	173.3	177.8	173.2	2.7
Unemployment rate	%	7.1	7.1	7.1	7.0	6.9	7.1	-.1
Capacity utilizaation rate	%	81.3	81.1	80.8	81.1	81.4	81.1	-.2
Private housing starts	mil.	1.586	1.445	1.510	1.552	1.545	1.513	-3.5
Car sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0

*Historical data (1) % change over previous year

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

There are a few indications of some slowing in the economy from the frantic pace of the first quarter of this year, but these signs are NOT STRONG ENOUGH to show growth reaching a lower and more sustainable pace in order to avoid any potential problems next year or the year after. Still, KEDI forecasts moderate growth in those years and expects increasing evidence to surface as lower expansion is achieved.

Signs of Moderation:

1. Retail sales were off by 0.9 percent in July. KEDI shares the view of G. Wenglowski of Goldman, Sachs & Co. that recent flatness here is temporary. Consumer spending has strength and will likely bounce ahead before the year is out.
2. Steel output was down in early July. That is temporary as orders have been delayed to hedge on a possible auto strike.
3. The survey of purchasing managers showed a slight decline in July, but it was not significant.
4. Housing was off slightly. The reader is referred to Section 4.1.

Signs of Robust Growth:

1. Industrial production jumped ahead 0.9 percent in July--the same as the revised rate for June which had been estimated at just 0.5 percent by the Commerce Dept. earlier. Output of business equipment was up 1.2 percent, and defense and space output gained 1.3 percent, while durable goods were up 1.5 percent. All that shows robust growth--not a slowdown.
2. Better growing conditions point to sharply increased soybean and corn harvests.
3. Orders for machine tools jumped ahead in July by 63 percent from the year-earlier rate.
4. Orders for durable goods moved ahead 2.2 percent.

Continued growth is the conclusion in terms of business and consumer spending. The slowing factors: STRIKES IN THE AUTO INDUSTRY AND COAL MINES. Calculations show that if they last for a month or more, the impact will make growth last longer.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Gross national product	bil. 72$	1535.8	1610.9	1640.8	1655.7	1668.1	1643.9	7.1
Personal cons. expenditures	bil. 72$	1011.4	1044.2	1063.1	1080.8	1096.1	1071.1	5.9
Gross private dom. investment	bil. 72$	219.0	285.5	284.1	286.4	283.3	284.8	30.0
Net exports	bil. 72$	11.3	-8.3	-8.9	-13.8	-15.7	-11.8	--
Federal govt. purchases	bil. 72$	117.8	112.2	123.5	122.7	123.9	120.6	2.6
State and local purchases	bil. 72$	175.3	177.3	179.0	179.6	180.5	179.1	2.2

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil. 72$	1643.9	1679.1	1690.2	1700.2	1712.1	1695.4	3.1
Personal cons. expenditures	bil. 72$	1071.1	1109.0	1123.8	1128.7	1139.8	1125.3	5.1
Gross private dom. investment	bil. 72$	284.8	281.5	277.7	281.0	280.4	280.2	-1.6
Net exports	bil. 72$	-11.8	-15.8	-16.7	-17.3	-18.6	-17.1	--
Federal govt. purchases	bil. 72$	120.6	124.1	124.3	125.4	126.8	125.2	3.8
State and local purchases	bil. 72$	179.1	180.3	181.1	182.4	183.7	181.8	2.0

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Gross national product	bil. 72$	1695.4	1720.1	1730.2	1743.9	1757.0	1737.8	2.5
Personal cons. expenditures	bil. 72$	1125.3	1153.6	1163.3	1164.6	1169.6	1162.8	3.3
Gross private dom. investment	bil. 72$	280.2	272.6	270.0	279.6	286.0	277.1	-1.1
Net exports	bil. 72$	-17.1	-18.7	-18.0	-17.5	-17.8	-18.0	--
Federal govt. purchases	bil. 72$	125.2	128.0	129.1	130.2	131.0	129.6	3.5
State and local purchases	bil. 72$	181.8	184.6	185.8	187.0	188.2	186.4	2.5

*Historical data (1) % change over previous year

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast remains the same. Inflation will not take off toward the end of this year or during 1985 either.

	CPI	PPI
	(Percentage Changes over the Prior Year)	
1984	3.2	2.5
1985	4.7	4.1
1986	5.4	6.7

As to the CPI, KEDI maintains its forecast that the main element pushing the CPI ahead some is going to be SERVICES. (This category represents about one-half of the CPI.) Calculations here show that 5 percent will be added this year, 6.5 percent in 1985, and 7.4 percent in 1986 in terms of prices for services. Services that will be gaining the most will be medical care, transportation, entertainment and repairs. The commodities component is forecast to rise quite moderately: food, clothes, apparel and consumer durables.

KEDI shares the view expressed in The Wall Street Journal of Aug. 23 that the strong dollar has been holding inflation down. Commodity prices have been subject to real or potential competition from abroad and that has forced manufacturers here to hold the line on their prices. Services are not subject to the same forces of international competition. Prices and wages in the service sector have gone up in the face of demand that has increased.

The PPI will be gaining at even lower rates than the CPI through 1985. The items that will hold down such prices are durable goods. Expect prices for durables to gain just 2 percent this year, 3.2 in 1985, and 3.8 percent in 1986. Look to the price of gasoline to gain a modest 2.2 percent this year, 2.5 in 1985, and 3.3 the year after. As to prices of raw materials, KEDI forecasts they will increase a very modest 1.3 percent this year, 2.2 in 1985 and move ahead in 1986 by 4.4 percent.

Consumer prices gained 0.3 percent in July as opposed to 0.2 percent in June. The gain in the PPI was also 0.3 percent attributed mostly to meat prices.

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1*	2	3	4		
Consumer price index, n.s.a.	1967=100	297.4	303.1	305.2	307.8	310.9	306.8	3.2
Producer price index, n.s.a.**	1967=100	285.2	290.6	291.4	292.5	294.3	292.2	2.5
Price deflators:								
GNP	1972=100	215.6	220.6	222.3	223.8	225.8	223.1	3.5
Personal cons. expenditures	1972=100	213.3	218.0	219.1	221.1	223.1	220.3	3.2
Gross private dom. investment	1972=100	215.4	218.5	220.9	221.2	222.0	220.7	2.5
Federal purchases	1972=100	233.6	238.5	242.3	245.1	247.4	243.3	4.2
Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Consumer price index, n.s.a.	1967=100	306.3	314.1	318.7	324.1	328.2	321.3	4.7
Producer price index, n.s.a.**	1967=100	292.2	297.8	301.5	305.8	311.8	304.2	4.1
Price deflators:								
GNP	1972=100	223.1	227.1	230.9	234.0	236.7	232.2	4.1
Personal cons. expenditures	1972=100	220.3	224.2	227.7	231.0	234.2	229.3	4.1
Gross private dom. investment	1972=100	220.7	221.2	223.1	224.4	225.1	223.4	1.2
Federal purchases	1972=100	243.3	249.9	256.0	260.4	261.8	257.0	5.6
Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Consumer price index, n.s.a.	1967=100	321.3	333.1	336.2	340.3	345.1	338.7	5.4
Producer price index, n.s.a.**	1967=100	304.2	317.2	321.5	327.8	331.4	324.5	6.7
Price deflators:								
GNP	1972=100	232.2	239.0	242.1	245.9	248.6	244.0	5.1
Personal cons. expenditures	1972=100	229.3	236.9	239.9	245.1	247.7	242.4	5.7
Gross private dom.investment	1972=100	223.4	226.4	228.0	226.9	229.3	227.6	2.0
Federal purchases	1972=100	257.0	263.5	267.0	267.6	268.9	266.8	3.8

*Historical data (1) % change over previous year **Finished goods

1.22 NOMINAL GNP

(Table 1.22 on page 11)

Forecast data for the total Nominal GNP has remained essentially unchanged. Forecast data for some components has been slightly revised: Data for Personal consumption expenditures have been increased and data for Gross Private Domestic Investment decreased. The Net Exports data have been revised upwards. The Gross Private Domestic Investment data and the Net Exports data revisions compensated the Personal Consumption Expenditures revisions. Thus, the total for Nominal GNP has remained essentially unaffected. The downward revision of Gross Private Domestic Investment was caused by a slower than previously anticipated buildup of inventories; forecast data for residential and business fixed capital formation remained essentially unchanged when compared to the previous forecast. The upward revision of data for the foreign trade deficit have been due mainly to the following: Now, KEDI anticipates that more commodities such as raw materials (iron ore, natural rubber, copper, bauxite, and oil), consumer goods (mainly leather products, textile, apparel, and automobiles) will be imported in 1984 - 1986 than previously forecasted. The reason: the strength and increasing value of the dollar. KEDI reiterates its position that a strong dollar is a benefit and not a minus for the U.S. economy: (1) It keeps inflation down by pressuring domestic producers into price discipline, (2) attracts foreign capital and thus alleviates the pressure on domestic financial markets because a significant portion of domestic financial needs is satisfied from outside sources, (3) contributes significantly to American prestige abroad, and (4) contributes to the higher production and employment in Third World countries.

KEDI shares the view of Louis Rukeyser that the U.S. has again become the world's refuge because of the strength of the dollar. He also expressed the view given here above and in a previous issue that cheaper foreign goods keep producers on their toes. (Auto sales of U.S. made cars have moved ahead.) As Volker expressed it and KEDI also agrees, the dollar appreciation has aided the demand here for imports and that has helped debtor countries.

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil.$	3310.5	3553.3	3648.1	3705.6	3767.1	3668.5	10.8
Personal cons. expenditures	bil.$	2158.0	2276.6	2329.5	2389.5	2445.5	2360.3	9.4
Gross private dom. investment	bil.$	470.9	623.8	626.4	633.6	629.0	628.2	33.4
Net exports	bil.$	-9.0	-51.5	-54.6	-68.8	-71.8	-61.6	--
Federal purchases	bil.$	274.8	267.6	299.4	300.7	306.5	293.6	6.8
State and local purchases	bil.$	414.7	436.8	447.5	450.6	457.9	448.2	8.1

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil.$	3668.5	3813.2	3902.7	3978.5	4053.9	3937.1	7.3
Personal cons. expenditures	bil.$	2360.3	2486.1	2559.3	2607.4	2669.6	2580.6	9.3
Gross private dom. investment	bil.$	628.2	622.6	619.4	630.4	631.1	625.9	-.4
Net exports	bil.$	-61.6	-69.4	-67.3	-67.0	-66.1	-67.5	--
Federal purchases	bil.$	293.6	310.1	318.2	326.5	331.9	321.7	9.6
State and local purchases	bil.$	448.2	463.8	473.1	481.2	487.4	476.4	6.3

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil.$	3937.1	4115.2	4190.2	4288.6	4367.9	4240.5	7.7
Personal cons. expenditures	bil.$	2580.6	2733.3	2790.3	2853.9	2897.6	2818.8	9.2
Gross private dom. investment	bil.$	625.9	617.2	615.6	634.3	655.8	630.7	.8
Net exports	bil.$	-67.5	-68.6	-64.5	-63.4	-61.7	-64.6	--
Federal purchases	bil.$	321.7	337.3	344.7	348.4	352.3	345.7	7.5
State and local purchases	bil.$	476.4	496.0	504.1	515.4	523.9	509.9	7.0

*Historical data (1) % change over previous year

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The only change here are fractional adjustments for the quarterly data. For example, the fourth quarter average for this year in the current issue is 6.94 as opposed to 6.91 in the last issue, and this does not alter the yearly average of joblessness being 7.31 percent or almost 26 percent lower than in 1983. Look to unemployment to be very close to 7 percent throughout 1985 and 1986 also.

The jobless rate of 7.5 percent for July is considered here and other places to be an aberration of the trend. The Labor Department's monthly survey of households showed a loss of over 300,000 jobs in July. KEDI shares the view of Alan Greenspan that these numbers are not important input, but the payroll numbers give an indication of where the economy is headed. The Labor Department survey of business payrolls, showed over 300,000 jobs were created in July. The opinion of Lawrence Chimerine of Chase Econometrics that the July rise in the jobless rate did not reflect reality is shared here. The data discussed in the Real Growth section convincingly points to solid growth having taken place that month.

Since March, total civilian unemployment moved downward from close to 8 percent to closer to 7 percent through June. In May and June expansion in unemployment was well above the normal seasonal trend. It is suggested that there may be problems with the seasonal adjustment, and that the bulk of the summer employment surge took place in those months and not in June and July. If that were the case, then the seasonal adjustment was overdone in terms of the household survey that showed a gain of 672,000 jobs in July before the adjustment.

The average factory workweek was up slightly to 40.6 hours in July.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.9	235.8	236.7	237.8	238.9	237.3	1.3
Civilian labor force	mil.	111.6	112.5	113.6	114.7	115.7	114.2	2.4
Employment	mil.	100.8	103.7	105.1	106.7	107.7	105.8	5.3
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Nonagriculture	mil.	97.5	100.4	101.7	103.3	104.3	102.4	5.4
Unemployment rate	mil.	9.58	7.87	7.47	7.09	6.94	7.34	-23.4

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.2	116.8	117.9	119.1	120.3	118.5	3.8
Employment	mil.	105.8	108.7	109.6	110.7	111.7	110.2	4.1
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	0
Nonagriculture	mil.	102.4	105.4	106.3	107.4	108.4	106.9	4.3
Unemployment rate	mil.	7.34	6.98	7.11	7.10	7.09	7.07	-3.7

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	118.5	121.4	122.5	123.7	124.9	123.1	3.9
Employment	mil.	110.2	112.8	113.9	115.1	116.3	114.5	3.9
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	0
Nonagriculture	mil.	106.9	109.4	110.5	111.7	112.9	111.1	3.9
Unemployment rate	mil.	7.07	7.13	7.14	7.03	6.94	7.06	-.1

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*Historical data (1) % change over previous year

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1.40 HOUSING AND AUTOMOBILES

1.41 HOUSING

(Table 1.41 on page 15)

The forecast is slightly altered in terms of quarterly data, but these do not change the yearly averages. Single-family starts are still forecast to be 7.8 percent higher this year than last with a total of 1.150 million starts this year. In 1985, the total of .948 million starts forecast remains the same. There is a change in the price of a new home which is now seen as being 8.7 percent higher this year than last year whereas the rate of gain in the last Survey was calculated at 8.5 percent.

Housing starts were off by 6.6 percent in July from the level of June. That documents what has been maintained here for months: Housing had peaked and will keep on moving down. However, the decline is not significant as yet. Construction of new homes in July was at a seasonally adjusted annual rate of 1.761 million. That is also 2 percent below the rate of July of last year. Single-family starts were down 10 percent from June while apartment building was off just 1.9 percent.

Building permits issued were down 12 percent from the prior month. Compared to a year-ago, they were 11 percent lower.

A poll of builders found that 62 percent felt conditions for sales of single-family homes were good. There is still a lot of confidence among builders.

KEDI shares the outlook of Michael Sumichrast that interest rates would have to be closer to 12 percent to boost the housing market. Such rates are not in our future, so do not look to any revival in housing. As to the near future, some expect rates to be at 15 percent by the end of the year. This Institute does not share that view. Anticipate the rate to be closer to 14.5 percent at that time.

Looking back over the first one-half of the year, new housing was being built at a rate 13 percent higher than in the first six months of 1983. Phoenix, Dallas, and Atlanta led the nation in new housing units.

TABLE 1.41 HOUSING

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1*	2	3	4		(1)
Single-family housing starts	mil.	1.068	1.278	1.085	1.094	1.032	1.122	5.0
Multifamily housing starts	mil.	.635	.690	.813	.646	.630	.695	7.4
Mobile home shipments	mil.	.296	.298	.294	.310	.301	.301	4.5
Permits authorized	mil.	1.594	1.809	1.760	1.594	1.561	1.681	5.5
1-family unit price, new**	tho.$	89.8	94.7	96.5	99.1	100.1	97.6	8.7
1-fmaily unit price,existing**	tho.$	82.5	86.5	88.7	92.6	93.1	90.2	9.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Single-fmaily housing starts	mil.	1.122	.950	.969	.975	.864	.942	-16.1
Multifamily housing starts	mil.	.695	.620	.657	.628	.601	.626	-9.8
Mobile home shipments	mil.	.301	.274	.280	.281	.232	.267	-11.3
Permits authorized	mil.	1.681	1.498	1.510	1.521	1.476	1.501	-10.7
1-family unit price, new**	tho.$	97.6	103.6	104.2	105.1	104.8	104.4	7.0
1-family unit price,existing**	tho.$	90.2	95.1	95.4	96.7	96.7	96.0	6.4

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.942	.875	.920	.941	.936	.918	-2.5
Multifamily housing starts	mil.	.626	.570	.590	.611	.609	.595	-5.0
Mobile home shipments	mil.	.267	.228	.233	.251	.260	.243	-8.9
Permits authorized	mil.	1.476	1.326	1.412	1.481	1.568	1.447	-3.6
1-family unit price, new**	tho.$	104.4	103.1	105.8	108.7	112.5	107.5	3.0
1-family unit price,existing**	tho.$	96.0	97.8	97.2	99.4	102.6	99.3	3.4

*Historical data (1) % change over previous year

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast is not changed. As has been stated here before, car sales have past their peak and will be gradually declining. Auto sales of U.S. made vehicles were off by 0.8 percent in early August. That was the first year-to-year decline this year. Incorporating the seasonal adjustment factors used by the Commerce Dept., shows U.S. car sales reaching a total of seven million units at an annual rate based on the early August figures. That compares to a rate of 8.5 million in late July--certainly a downward adjustment. The pent-up demand has been largely satisfied. More evidence of the adjustment is found in a survey reported by the Conference Board which asked those involved if they or any member of their family planned to buy a new car. The July data from this survey showed 7.6 percent had such plans whereas in June, the total was 10 percent.

As can be seen in Table 1.42, KEDI still looks to total auto sales of 10.4 million for this year: approximately 8 million domestic and 2.5 million imported. That represents a gain of 13 percent over the previous year. Expect such sales to edge down to close to 10.0 million in 1985 with the import level being the same as this year. That is, U.S. made cars will total in the 7.5 million range in 1985.

The decline for contract negotiations in the auto industry is September 14. One of the issues involves the desire of the union to increase job security for the one-half million auto workers at GM and Ford. Progress has been slow. KEDI sees a strike of 30-45 days as quite likely.

1.50 BUDGETS

(Table 1.50 on page 19)

KEDI maintains the position that Federal Budget deficits will keep on declining. The forecast here has only had very small revisions for quite a few months. Gradually, the projections of the Administration are coming closer to the outlook maintained here. The Congressional Budget Office (CBO) has traditionally overestimated the amount of red ink, and as their new estimate shows, they are also getting closer to the forecast of this Institute. A comparison is presented of the size of the deficit.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	9.2	10.6	10.6	10.5	10.1	10.4	13.0
Domestic	mil.	6.8	8.3	8.2	8.0	7.5	8.0	17.6
Imported	mil.	2.4	2.3	2.4	2.4	2.6	2.5	1.0
Dealers inventories, n.s.a.	mil.	1.4	1.6	1.3	1.3	1.3	1.4	.0
Factory shipments	mil.	6.7	8.3	8.0	7.9	6.9	7.8	16.4
Light-duty trucks:								
Total sales	mil.	2.5	3.0	3.2	3.1	2.8	3.0	20.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	10.4	10.2	10.1	9.8	9.7	10.0	-3.8
Domestic	mil.	8.0	7.7	7.7	7.4	7.3	7.5	-6.2
Imported	mil.	2.5	2.5	2.5	2.4	2.4	2.5	.4
Dealers inventories, n.s.a.	mil.	1.4	1.6	1.7	1.6	1.5	1.5	.0
Factory shipments	mil.	7.8	7.6	7.7	7.3	7.1	7.4	-5.1
Light-duty trucks:								
Total sales	mil.	3.0	2.5	2.8	3.0	2.8	2.8	-6.7

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0
Domestic	mil.	7.5	7.1	7.4	7.2	7.3	7.3	-2.7
Imported	mil.	2.5	2.4	2.3	2.4	2.5	2.4	-.4
Dealers inventories, n.s.a	mil.	1.5	1.9	1.8	1.7	1.5	1.5	.1
Factory shipments	mil.	7.4	7.2	7.3	7.0	6.9	7.3	-2.7
Light-duty trucks:								
Total sales	mil.	2.8	2.7	2.8	2.7	2.6	2.7	-3.6

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*Historical data (1) % change over previous year

BUDGETS

Federal Budget Deficit, billions of $, fiscal years
(As estimated in Feb. and in Aug.)

	KEDI		Administration		CBO	
	Feb.	Aug.	Feb.	Aug.	Feb.	Aug.
1984	177	176	178	174	189	172
1985	184	181	180	179	197	178
1989	130	132	123	139	308	263

Sources: KEDI Economic Survey, February 1, 1984, page 16. The Wall Street Journal August 7, 1984, page 2; and August 17, 1984, page 17.

First, as the Table shows, the forecast by the CBO has been coming closer to that of the Administration and of KEDI.

Secondly, the forecast made by the CBO in February of this year was way off the mark, whereas KEDI and the Administration have been close to the target.

Thirdly, the projection here has remained essentially unchanged. At the same time, the outlook of the Administration was changed by $16 billion for 1989. The CBO decreased their forecast by over $43 billion between February and August of this year.

Surpluses will remain at the state and local government levels. When balanced against the red ink in Washington, a significant reduction is apparent. There are only minor adjustments to the forecast presented in Table 1.50 which is done on a calendar year basis.

1.60 INCOME

(Table 1.60 on page 21)

The forecasts of Personal Income and components are slightly adjusted in this issue. For instance, personal disposable income is now seen as rising 12.8 percent this year whereas in the August Survey, the increase was set at 10.8 percent over the prior year. Personal income is forecast as gaining

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	298.5	301.6	310.7	319.1	327.8	314.8	6.4
Corpor.profits tax accruals	bil.$	60.4	73.0	74.0	79.0	80.8	76.7	27.1
Surplus/deficit	bil.$	-182.0	-161.3	-166.9	-163.2	-161.6	-163.3	-10.1
State and local governments:								
Income taxes	bil.$	110.5	116.7	119.6	125.0	127.1	122.1	10.4
Corpor.profits tax accruals	bil.$	19.5	19.7	19.8	20.5	21.1	20.3	22.1
Surplus/deficit	bil.$	51.4	53.9	53.9	54.6	57.5	54.9	6.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government								
Income taxes	bil.$	314.8	336.6	342.5	347.3	354.1	345.1	9.6
Corpor.profits tax accruals	bil.$	76.7	81.9	85.4	86.3	88.2	85.5	11.4
Surplus/deficit	bil.$	-163.3	-159.3	-157.5	-155.6	-148.3	-155.2	-4.9
State and local governments:								
Income taxes	bil.$	122.1	129.0	134.8	137.2	139.6	135.2	10.7
Corpor.profits tax accruals	bil.$	20.3	22.8	24.8	25.9	27.3	25.2	24.3
Surplus/deficit	bil.$	54.9	61.2	64.3	68.7	71.2	66.4	20.7

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	345.1	367.5	376.8	378.0	381.2	375.9	8.9
Corpor.profits tax accruals	bil.$	85.5	90.1	91.4	95.0	98.8	93.8	9.8
Surplus/deficit	bil.$	-155.2	-146.8	-143.1	-137.2	-134.5	-140.4	-9.5
State and local governments:								
Income taxes	bil.$	135.2	141.7	142.9	143.8	145.7	143.5	6.2
Corpor.profits tax accruals	bil.$	25.2	28.1	29.6	30.7	31.8	30.1	19.2
Surplus/deficit	bil.$	66.4	73.0	74.7	76.5	77.7	75.5	13.8

*Historical data (1) % change over previous year

INCOME

10.2 percent this year--hardly changed since the last issue when the gain was set at 10.3 percent. Look to such income to increase by 9 percent in 1985 while disposable income goes up 6.8 percent over 1984.

There is good news. Recently released data suggest a large share of income is being saved. Personal income went up by 0.8 percent in July after increasing 0.9 percent in June. At the same time, consumer spending went up by just 0.3 percent in July as opposed to 0.4 percent in June.

Two opposite views were expressed on the trend of consumer spending. David Hale, chief economist for Kemper Financial Services pointed to a resurgence of consumer spending in the autumn. Gary Shilling has the view that the slowdown in spending would continue and help lead to a mild recession after the first of the year. Neither of these views is seen here.

KEDI forecasts that consumer spending will rise moderately as can be seen in Table 1.22, Nominal GNP. Consumer spending will not be a bummer and will not lead us to some kind of recession. There won't be any recession. On the other hand, it will not bound ahead. Why? The reason can be found in employment gains in the fall of this year. They will not be excessive. Also, the anticipated auto and coal strikes will cause a slowing of growth in totoal personal income and that means a slowing of spending.

Corporate Profits. There are fractional adjustments in the forecast of profits. Expect them to rise by 19.1 percent this year, after taxes. (In the August issue, the percentage gain was set at 19.4 percent.) Look to an increase of 8.5 percent in 1985 over the current year. As KEDI has projected, profits were strong in the first half of the year. They will be smaller during the second half of this year. Recent data adds credence to that forecast. During the second quarter, after-tax profits were up by 29 percent for over 500 major corporations. They had increased 58 percent in the first quarter.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

Changes in the forecast reflect fractional adjustments. Essentially the projection is not changed. It was in June that KEDI suggested the Fed should pause, take a break, wait and see. That has happened in the last two months.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2742.1	2920.5	2982.3	3055.8	3127.0	3021.4	10.2
Personal disposable income	bil.$	2335.6	2502.2	2552.0	2611.7	2672.1	2634.5	12.8
Compensation of employees	bil.$	1990.2	2113.4	2158.9	2180.3	2207.2	2165.0	8.8
Corporate after tax profits	bil.$	130.6	150.6	152.9	157.0	161.5	155.5	19.1
Personal saving	bil.$	113.6	152.5	145.6	150.2	153.7	150.5	32.5
Average weekly earnings	$	354.5	366.2	371.2	375.0	381.0	373.4	5.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	3021.4	3183.8	3267.1	3327.3	3400.9	3294.8	9.0
Personal disposable income	bil.$	2634.5	2718.2	2789.8	2842.8	2907.2	2814.5	6.8
Compensation of employees	bil.$	2165.0	2334.7	2351.2	2390.1	2403.3	2369.8	9.8
Corporate after tax profits	bil.$	155.5	165.0	168.4	170.1	171.4	168.7	8.5
Personal saving	bil.$	150.5	158.2	156.3	160.4	162.1	159.3	5.8
Average weekly earnings	$	373.4	386.1	392.0	398.2	402.0	394.6	5.7

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Personal income	bil.$	3294.8	3483.7	3554.1	3621.2	3674.0	3583.3	8.8
Personal disposable income	bil.$	2814.5	2974.5	3034.4	3099.4	3147.1	3063.9	8.9
Compensation of employees	bil.$	2369.8	2462.1	2475.8	2526.3	2558.9	2505.8	5.7
Corporate after tax profits	bil.$	168.7	175.1	179.3	184.0	188.8	181.8	7.7
Personal saving	bil.$	159.3	165.4	167.2	168.1	171.3	168.0	5.5
Average weekly earnings	$	394.6	407.9	411.3	416.0	422.0	414.3	5.0

*Historical data (1) % change over previous year

MONEY AND CREDIT

Apparently, at the August 21 meeting of the Open Market Committee, the decision was to take no action: to wait and see and neither tighten nor loosen restrictions. The economy is still growing at a good clip, and that means they cannot get lax in their policies. The small signals of economic slowdown are still too sparse to allow for any loosening.

KEDI agrees with the view of Paul Boltz, and economist at T. Rowe Price Associates Inc. that there is really no reason for the Fed to alter its course at this time.

The Fed reported that M1 averaged just slightly less in July than in June. Borrowing by banks and savings institutions averaged 1.01 billion in early August. That was down slightly from the prior two-week average borrowing of 1.06 billion. The figures do point to Fed policy being stable. A view expressed by David M. Jones of Aubrey G. Lanston & Co. that KEDI shares.

The forecast here shows that M1, M2, M3 will move well within the target limits. In the foreseeable future, do not look to any significant move either direction by the Federal Reserve.

The forecast of credit aggregates remains the same. Data show that consumer credit will remain strong. Still, it will not be gaining as rapidly as it did in the first quarter mainly due to a lower demand for automobile loans. Look to strong growth in commercial loans throughout the rest of this year and during 1985. That will abate in the following year.

The forecast for mortgages shows the volume of such loans will lessen quite a bit. That is, they will be expanding but at a very small rate. Hence, there will be no declines in 1985 or 1986.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

KEDI's forecast shows no solid declines in our future as far as interest rates are concerned. That is, any possible declines will be marginal and of a temporary nature. Edward Yardeni of Prudential-Bache Securities expressed the view that interest rates would be higher next year, but cautioned they

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	509.0	532.7	537.3	547.8	554.3	542.9	6.7
Time deposits, adjusted,M2	bil.$	2115.9	2217.3	2264.0	2319.7	2379.6	2295.2	8.5
Consumer instal. credit	bil.$	387.9	404.7	421.5	428.9	435.7	435.7	12.3
Commerc. & indus. loans at banks	bil.$	413.0	418.7	425.0	433.0	442.1	442.1	7.0
Large denomination time dep.	bil.$	307.5	340.7	353.7	346.4	352.3	348.3	13.3
Mortgages at S&L Assns.	bil.$	493.4	498.9	510.5	518.9	529.4	529.4	7.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	542.9	560.2	567.8	573.1	581.7	570.7	5.1
Time deposits, adjusted, M2	bil.$	2295.2	2429.1	2480.5	2531.2	2583.7	2506.1	9.2
Consumer instal. credit	bil.$	435.7	441.4	446.7	453.1	456.7	456.7	4.8
Commerc. & indus. loans at banks	bil.$	442.1	444.9	447.0	450.5	456.0	456.0	3.1
Large denomination time dep.	bil.$	348.3	353.9	359.6	361.3	367.2	360.5	3.5
Mortgages at S&L Assns.	bil.$	529.4	530.1	533.1	536.4	542.0	542.0	2.4

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	570.7	588.9	595.9	606.1	616.2	601.8	5.4
Time deposits, adjusted, M2	bil.$	2506.1	2644.1	2712.8	2776.1	2853.0	2746.5	9.6
Consumer instal. credit	bil.$	456.7	479.9	461.8	465.4	473.6	473.6	3.7
Commerc. & indus. loans at banks	bil.$	456.0	458.1	459.6	461.1	469.7	469.7	3.0
Large denomination time dep.	bil.$	360.5	368.9	373.9	381.2	387.5	377.9	4.8
Mortgages at S&L Assns.	bil.$	542.0	543.7	547.9	554.0	561.8	561.8	3.7

*Historical data (1) % change over previous year

were less sure about that than in the past. Mr. Howard of the Federal National Mortgage Association predicted that bond yields would go up later this year and in the first part of 1985. KEDI is sure that interest rates will go up next year and agrees with Mr. Howard on the trend of bond yields.

Different views were verbalized at Evans Economics. They anticipate a lowering of credit demand which would lead to a downturn in short-term rates. Michael Evans of that firm forecast a federal funds rate in the 9½-10 percent range before the end of the year. This Institute does not share that view. Look to the rate to be above 10 percent--at the very least, expect it to go no lower than 10 percent. It is much more likely that it will be 10½ or more.

The Federal Funds rates have been following a jagged upward trail for many months, having been in the 9.5 percent area at the end of January and being between 11.5 and 11.75 in late August.

Since the start of the summer, bond yields have moved downward with the Moody's Average being at close to 15 percent in June and reaching close to 13.5 percent in late August. KEDI sees this average as edging up just a bit more to the 13.5-13.8 range in the last quarter of this year.

The forecast of the stock market remains optimistic. As measured by the Dow-Jones Industrial Average, the stock market is expected to fluctuate around 1,200 in 1985, and slight declines are forecast for 1986. The bond market will remain tight for the majority of the 1985-86 period. The present rally on the bond market is viewed here as a temporary one.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	8.61	9.17	9.81	10.09	10.14	9.80	13.8
Prime rate	%	10.70	11.08	12.31	13.00	13.00	12.35	15.4
Conventional mortgage rate	%	13.43	13.57	13.98	14.41	14.59	14.14	5.3
Aaa corporate bonds rate	%	12.04	12.28	12.97	13.17	13.27	12.92	7.3
20 years Govt. bonds yield	%	11.34	12.16	12.68	12.87	13.20	12.73	12.3
Standard & Poor's 500 Average	1941-43 =100	160.41	160.51	160.02	157.14	159.48	159.29	-.7

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Treasury bills (3 mo) yield	%	9.80	10.18	10.82	11.09	11.12	10.80	10.2
Prime rate	%	12.35	13.25	13.30	13.50	13.50	13.39	8.4
Conventional mortgage rate	%	14.14	14.63	14.61	14.42	14.45	14.53	2.8
Aaa corporate bonds rate	%	12.92	13.34	13.56	13.58	13.47	13.49	4.9
20 years Govt. bonds yield	%	12.73	13.46	13.57	13.62	13.73	13.60	6.8
Standard & Poor's 500 Average	1941-43 =100	159.29	152.13	153.06	158.27	161.45	156.23	-1.9

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Treasury bills (3 mo) yield	%	10.80	11.14	11.02	10.84	10.09	10.68	-1.1
Prime rate	%	13.39	13.50	13.06	12.72	12.00	12.82	-4.3
Conventional mortgage rate	%	14.53	14.30	14.02	13.67	13.17	13.79	-5.1
Aaa corporate bonds rate	%	13.49	13.40	13.31	13.02	12.57	13.08	-3.0
20 years Govt. bonds yield	%	13.60	13.56	13.32	12.97	12.60	13.11	3.6
Standard & Poor's 500 Average	1941-43 =100	156.23	160.24	155.73	161.28	165.78	160.76	2.9

*Historical data (1) % change over previous year

2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

This September 1984 issue continues the description of relationships between the Kent Model's Interindustry Division and the Aggregative Division.

5.40 NATIONAL INCOME AND PRODUCT DATA AND THE INTERINDUSTRY DATA

In the Kent Model all interindustry data are calculated as quarterly data and yearly totals and averages. Data pertaining to commodities (data in the first and second quadrants of interindustry tables) are also presented in constant 1972 dollars, in current dollars, and as price deflators. The quarterly breakdown and the constant$-current$-price deflators presentation provide the basis for consistency of the interindustry and aggregative forecasts and simulations.

5.41 QUARTERLY DATA IN THE INTERINDUSTRY DIVISION

Calculations of quarterly interindustry values is a typical and specific feature of the Kent Model. The computer program that enables such calculations has been incorporated into the Kent Model since 1975. The Kent Model uses quarterly technology matrices of the U.S. economy as the main tool in determination of values of interindustry variables. Technology relationships are considered here as being a more suitable basis of interindustry modeling than pure economic relationships. Technological relationships are considered generally more stable than economic relationships. They are not directly subjected to economic fluctuations and gyrations and do develop in a stable way.

QUARTERLY TECHNOLOGY MATRICES OF THE U.S. ECONOMY

In the Kent Model, quarterly technology matrices of the U.S. economy are derived from yearly technology matrices that have been calculated for selected years. In the terminology of the Kent Model such yearly matrices are called key year matrices. Key years are considered those years for which the technology matrices have already been calculated by the U.S. Department of Commerce (selected past years) and those years for which the technology matrices have been calculated by K.E.D.I.,Inc. (future years.)

THE KENT ECONOMIC FORECASTING SYSTEM

In the Kent Model, the following key years are used at the present time: 1952, 1958, 1961, 1963, 1967, 1973, 1980, 1985, 1990, and 1995; the last two being revised currently.

QUARTERLY TECHNOLOGY MATRICES are obtained from technology matrices for key years by interpolation. For example, the quarterly technology matrix for the third quarter of 1984 is calculated from technology matrices for key years 1980 and 1985; the quarterly technology matrix for the second quarter of 1979 is calculated from technology matrices for key years 1973 and 1980.

Quarterly technology matrices are expressed in constant 1972 dollars and in current dollars. Matrices in constant dollars present the technology structure of the economy closer to the reality than those matrices expressed in current dollars--they are cleaned from the effects of price fluctuations.

INTERMEDIATE CONSUMPTION AND FINAL OUTPUT

Quarterly technology matrices are calculated for chosen number of quarters within the historical and forecast horizon of the Kent Model. Once the quarterly technology matrices are determined, calculations of current values, constant values, and price deflators proceed by traditional methods of interindustry analysis.

The dual treatment of commodities, namely their presentation in constant values and in current values and calculations of corresponding price deflators significantly extend the room for analyses and evaluations of interindustry and aggregative relationships, especially in the area of prices and costs.

The Kent Model data that pertain to the intermediate consumption are presented for 83 industries in the traditional format of 83 by 83 matrices. Currently, this format is being revised to enable a presentation of "make" and "use" matrices. Data that pertain to final outputs of industries are also calculated for each of the 83 industries.

(CONTINUED)

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Personal Consumption Expenditures in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol. 64, No.6, June 1984, Table 1.1. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal consumption expenditures, bil. curr. $)

Actual figure: 2054.8

Forecaster (and page in source)	Date of Forecast	Forecast	% of Accuracy
Albert T. Sommers, The Conference Board, pg 8	11/17/82	2130.0	3.7
Calvin R. Myers, The Merchants National Bank of Aurora, pg 10	12/82	2143.0	4.3
Walter D. Fackler, University of Chicago,pg12	12/8/82	2156.0	4.9
Georgia State University, pg 17	11/82	2136.6	4.0
Metropolitan Life Insurance Company, pg 24	12/1/82	2183.3	6.3
Citibank Economic Forecasting Service, pg 26	12/9/82	2141.8	4.2
Chase Econometrics, pg 29	12/29/82	2144.8	4.4
Kent Economic and Development Institute, pg 30	1/1/83	2113.4	2.9
The Equitable Life Assurance Society of the United States, pg 31	1/5/83	2130.9	3.7
Standard & Poor's Corporation, pg 34	1/6/83	2125.5	3.4
Morgan Guaranty Trust Company of New York,pg35	1/7/83	2120.6	3.2

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 5.00 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

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President: Dr. Vladimir J. Simunek

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This forecast uses the September 20, 1984, U.S. Department of Commerce third estimates of 1984:2 National Income and Product data. Also used is the September 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

Expect slow growth over the next two years, not a recession. Following an expansion of the economy in terms of real GNP of 7 percent this year, anticipate growth of 3 percent in 1985 and close to 2.6 percent in 1986. REAL GROWTH Recent developments generally show strength continuing. Expect that leading industries will be services, chemicals, machine tools, paper and products, electronics, plastics, and printing and publishing over the next two years. Growth in the service sector will outpace growth of goods-producing sectors. PRICES The recent rise in the pace of inflation does not signal the start of any upward movement. Inflation is seen at rather moderate levels this year and in 1985. There is no upward push from producer prices in sight. EMPLOYMENT AND LABOR Do not look to much change here. While the total number employed is going to continue to go up, the jobless rate will remain in the range just under 7.5 percent generally. HOUSING The forecast is revised here with single-family starts now seen as being 7.5 percent higher this year than last year. Housing has peaked and will show declines in both single and multi-family starts next year. AUTOMOBILES As the strike was shorter than had been expected the forecast is revised here. Expect sales to be about 14 percent higher this year than last year and reflect declines in 1985. BUDGETS KEDI views the red ink totals in a more optimistic light than in the House/Senate resolution, the Congressional Budget Office, and the Office of Budget Management but sees the forecast by the U.S. Chamber of Commerce as wishful thinking. Expect the deficit to very slowly move down to $140 billion in fiscal 1987 and continue to edge down about $4-6 billion a year in 1988 and 1989. INCOME Personal income is now forecast as being 10.4 percent higher this year than last year and will gain about the same amount in 1986. MONEY AND CREDIT Growth in M1 and M2 will be within the target ranges this year, and the surge of consumer credit will end. INTEREST RATES Expect them to remain fairly high with no real downward trend of any duration until 1985.

0.02 OVERVIEW

Subject: Direction of the economy. NO RECESSION IS ANTICIPATED IN 1985 OR IN 1986. DO LOOK TO SLOWING OF GROWTH.

Reasons for no recession:

1. Federal deficits do create additional demand. The large size of the deficits mean injections of purchasing power will also be large.
2. Expect strong purchasing power of businesses because they improved their balances and will continue to have good profits.
3. Healthy consumer purchases is part and parcel of somewhat higher levels of employment in both 1985 and 1986. Purchasing power continues to be aided by the last tax reductions.
4. Increasing defense spending is also a factor contributing to some growth.

The four points here are the central reasons that point to declines in economic activity as being most unlikely.

It was estimated at Data Resources that there is a 60 percent chance for a "growth recession" to occur in 1985. That term refers to a pause in growth caused by increases in unemployment without repeated declines in other major indicators of the economy. They refer to deficit-cutting steps of tax gains and cuts in federal spending. Unemployment will gain slightly due to natural growth of the labor force not deficit reduction. A PAUSE more accurately describes a small portion of 1985. It won't be any kind of recession.

The chief economist for Wharton Econometric, Donald Straszheim, looks to a slower economy in 1985. This Institute shares that view. However, agreement ends when it comes to 1986 as Mrs. Straszheim expects recession in that year. KEDI does not expect that at all.

Look to an expansion of real GNP of close to 3.0 percent in 1985. That is calculated as slowing to 2.6 percent in 1986.

KEDI FORECAST HIGHLIGHTS

TABLE 0.00

Indicator	Unit	1984	1986	1987	1988
Gross national product	bil.72$	1641.4	1734.5	1798.7	1888.6
	% change	7.0	2.5	3.7	5.0
Index of industrial production	1967=100	163.0	173.4	184.5	201.4
	% change	10.4	2.8	6.4	9.0
Capacity utilization	%	81.8	81.1	81.9	82.3
	% change	12.3	-.3	1.0	.5
Unemployment rate	%	7.48	7.33	7.04	6.81
	% change	-21.8	-1.1	-4.0	-3.2
Private housing starts	mil. units	1.833	1.533	1.729	2.025
	% change	6.8	-2.3	12.8	17.1
Car sales	mil. units	10.5	9.7	10.2	11.3
	% change	14.1	-3.0	5.5	9.1
Implicit GNP price deflator	1972=100	223.2	244.7	257.9	272.3
	% change	3.5	5.2	5.4	5.6
Consumer price index	1967=100	306.2	337.7	356.9	378.0
	% change	3.0	5.3	5.7	5.9
Producer price index (finished goods)	1967=100	291.8	322.5	344.4	368.5
	% change	2.3	6.7	6.8	7.0
Federal deficit	bil.$	-162.9	-151.8	-150.0	-144.9
	% change	-10.3	-5.1	-1.1	-3.4
Personal income	bil.$	3027.1	3574.2	3931.6	4363.0
	% change	10.4	6.8	10.0	11.1
Prime rate	%	12.28	12.50	11.46	10.43
	% change	14.9	-4.9	-8.3	-9.0
Mortgage rate	%	14.06	13.70	12.69	11.48
	% change	4.7	-5.0	-7.4	-9.5
Currency plus demand deposits	bil.$	542.8	599.3	635.9	676.0
	% change	6.6	5.4	6.1	6.3
Commercial and industrial loans	bil.$	468.7	499.8	516.8	545.7
	% change	13.5	2.6	3.4	5.6

Numbers in "% change" rows show percent changes over the previous year

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incprporated into the last issue, the Assumption No.3 has been updated.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will remain stable; in 1986 it will go up to $31 per barrel; in 1987, to $32 per barrel; and in 1988, $34 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier then in 1986 or 1987.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1986 period. In 1985 some temporary increases in interest rates are expected. Relaxation will start in 1986. It will continue in 1987.
4. In 1984 a good harvest is assumed for this country, and low production of crops is expected in the U.S.S.R. and China. In 1985, assume U.S. record crops, and in the U.S.S.R. and China, average crops will take place. In 1986 good crops in all main producing countries are anticipated.
5. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.

No drastic changes in international relationships are anticipated.

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the October 1984 KEDI forecast. In 1985 and 1986 a general slowdown is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years. Compared to the September forecast, main changes pertain to the Nominal Gross National Product, and interest rates. Forecast data for these have been slightly decreased. These downward revisions are not too significant, however. Forecast data for 1984-1989 do not point to any recession or a major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining. The export-import gap will start closing to a more sustainable level in 1987 and the following years.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quartelry data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1*	2	3	4		
Gross national product	bil. 72$	1535.3	1610.9	1638.8	1651.7	1664.3	1641.4	7.0
Index of industrial production	1967=100	147.7	159.8	163.1	164.0	165.1	163.0	10.4
Unemployment rate	%	9.6	7.9	7.5	7.3	7.3	7.5	-21.8
Capacity utilization rate	%	72.5	80.6	81.6	82.6	82.4	81.8	12.3
Private housing starts	mil.	1.703	1.968	1.906	1.785	1.675	1.833	6.8
Car sales	mil.	9.2	10.6	10.6	10.5	10.3	10.5	14.1

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1641.4	1673.7	1686.2	1695.4	1709.3	1691.1	3.0
Index of industrial production	1967=100	163.0	166.9	168.5	169.0	170.0	168.6	3.4
Unemployment rate	%	7.5	7.4	7.4	7.4	7.5	7.4	-1.1
Capacity utilization rate	%	81.8	82.1	82.0	81.4	81.2	81.7	-.1
Private housing starts	mil.	1.833	1.586	1.624	1.596	1.469	1.569	-14.4
Car sales	mil.	10.5	10.2	10.1	9.8	9.7	10.0	-4.8

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1691.1	1717.3	1726.4	1739.7	1754.6	1734.5	2.6
Index of industrial production	1967=100	168.6	169.9	170.1	174.6	179.0	173.4	2.8
Unemployment rate	%	7.4	7.6	7.4	7.3	7.1	7.3	-1.1
Capacity utilization rate	%	81.7	81.1	80.8	81.1	81.4	81.1	-.3
Private housing starts	mil.	1.569	1.482	1.529	1.577	1.545	1.533	-2.3
Car sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0

*Historical data (1) % change over previous year

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The economy is slowing. That has been needed after the rapid pace of earlier quarters this year. However, it is not slowing so much that recession may come. A reversal to negative figures is not going to happen. Indicators point to moderate growth.

As was stated in the Overview section and can be seen in Table 1.10, growth is forecast at 3 percent for 1985 and 2.6 percent in 1986. For the current year as a whole, look to growth averaging 7 percent.

During 1985, anticipate that housing and autos will not be as successful as they have been of late. Still, they will move ahead enough so as not to cause the economy to move downward. For nonresidential construction and repair and maintenance of roads, the outlook is generally optimistic next year.

For some other industries, neither 1985 nor 1986 holds any bad news. That is, chemicals, machine tools, drilling equipment, electronics, paper and products, printing and publishing, and plastics are seen here as expanding over the next two years.

For coal mines, a significant slowdown in output is expected while the production of primary metals remains fairly flat. Compared to the current year, the capacity utilization rate for production of rubber, aluminum, cement, stone, clay, glass, lumber, electrical and nonelectrical machinery is seen as being lower over the next few years.

Data here indicate the service sector will be growing faster than the goods producing sextor. During 1985, look to the service sector to expand by close to 5 percent while the goods producing sector shows approximately 2 percent growth.

As to recent developments, they generally point to continued strength. For instance:

1. Auto sales remain strong (See Section 4.2).
2. The drop in durable orders was slight during August.
3. Machine tool orders were up 47 percent over the prior year in August but were 36 percent lower than in July.
4. The Conference Board reported confidence of consumers was still strong in August.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1*	2	3	4		
Gross national product	bil. 72$	1535.8	1610.9	1638.8	1651.7	1664.3	1641.4	7.0
Personal cons. expenditures	bil. 72$	1011.4	1044.2	1064.3	1072.6	1088.2	1067.3	5.5
Gross private dom.investment	bil. 72$	219.0	285.5	283.9	283.7	277.9	282.8	29.1
Net exports	bil. 72$	11.3	-8.3	-11.5	-12.2	-13.0	-11.3	--
Federal govt. purchases	bil. 72$	117.8	112.2	123.2	127.9	129.8	123.3	4.6
State and local purchases	bil. 72$	175.3	177.3	178.9	179.7	181.4	179.3	2.3

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1641.4	1637.3	1686.2	1695.4	1709.3	1691.1	3.0
Personal cons. expenditures	bil. 72$	1067.3	1096.2	1105.2	1120.0	1125.7	1111.8	4.2
Gross private dom.investment	bil. 72$	282.8	280.3	281.8	274.7	280.7	279.3	-1.2
Net exports	bil. 72$	-11.3	-16.5	-18.3	-20.4	-21.9	-19.3	--
Federal govt. purchases	bil. 72$	123.3	131.4	134.6	137.2	140.3	135.9	10.2
State and local purchases	bil. 72$	179.3	182.3	183.1	183.9	184.5	183.5	2.3

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Gross national product	bil. 72$	1691.1	1717.3	1726.4	1739.7	1754.6	1734.5	2.6
Personal cons. expenditures	bil. 72$	1111.8	1134.6	1140.4	1146.1	1154.9	1144.0	2.9
Gross private dom.investment	bil. 72$	279.3	277.9	278.6	283.5	284.7	281.2	.7
Net exports	bil. 72$	-19.3	-23.4	-24.2	-24.3	-22.6	-23.6	--
Federal govt. purchases	bil. 72$	135.9	142.6	145.6	148.0	150.6	146.7	8.0
State and local purchases	bil. 72$	183.5	185.6	186.0	186.4	187.0	186.3	1.5

*Historical data (1) % change over previous year

1.20 PRICES AND NOMINAL GNP

1.2. PRICES

(Table 1.21 on page 9)

Despite the August acceleration in consumer prices and the expected gains of September, the outlook remains optimistic. Compared to the previous forecast, this one is slightly reduced with the CPI seen as being 3.0 percent higher this year than last year whereas the figure in the last Survey was 3.2 percent. For 1985, look to inflation of 4.7 percent. Yes, that is higher, but it is still within tolerable limits.

In August, the CPI rose by 0.5 percent with housing, food and clothing leading the gains. Food prices moved ahead by 0.6 percent. Gains in food prices, electricity, and clothing are going to be seen also in October and then remain essentially flat for the remainder of the year. Look to very small increases in these components during 1985.

Producer prices edged downward ever so slightly in August. They will maintain their moderate pace during 1985 and most of the following year. Semi-finished products will contribute mostly to the small gains. In 1985, producer prices of natural gas and construction materials and plastics will also add to some of the modest inflation in producer prices while agricultural products are seen as contributing in 1986.

There certainly is no upward push evident from Producer Prices. Before seasonal adjustment, such prices were at 291.8 percent of the 1967 average as compared to the 292.6 percent level in July. The forecast for the gain in such prices in lowered in this Survey from 2.5 percent for 1984 to 2.3 percent. There is also a reduction in inflation for producer prices during 1985 to 3.6 percent.

KEDI does not share the view of Donald Ratajczak of Georgia Stae that inflation is intensifying. This Institute forecast quite moderate increases in terms of inflation.

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1*	2	3	4		
Consumer price index, n.s.a.	1967=100	297.4	303.1	305.2	307.1	309.6	306.2	3.0
Producer price index, n.s.a.**	1967=100	285.2	290.6	291.4	201.9	293.0	291.8	2.3
Price deflators:								
GNP	1972=100	215.6	220.6	222.4	223.8	225.8	223.2	3.5
Personal cons. expenditures	1972=100	213.3	218.0	219.2	222.1	223.4	220.7	3.4
Gross private dom.investment	1972=100	215.4	218.5	220.8	221.0	223.6	220.7	2.5
Federal purchases	1972=100	233.6	238.5	240.6	242.5	244.3	237.5	2.2

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Consumer price index, n.s.a.	1967=100	306.2	313.3	317.9	323.6	327.8	320.7	4.7
Producer price index, n.s.a.**	1967=100	291.8	295.7	299.4	304.3	309.9	302.3	3.6
Price deflators:								
GNP	1972=100	223.2	227.3	231.3	234.7	236.8	232.5	4.2
Personal cons. expenditures	1972=100	220.7	226.5	232.6	235.0	239.1	233.3	5.7
Gross private dom.investment	1972=100	220.7	219.4	218.0	227.8	222.9	222.0	.8
Federal purchases	1972=100	237.5	236.9	237.2	238.4	239.5	238.8	1.9

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Consumer price index, n.s.a.	1967=100	320.7	332.0	335.1	339.6	344.0	337.7	5.3
Producer price index, n.s.a.**	1967=100	302.3	315.4	318.1	325.9	330.7	322.5	6.7
Price deflators:								
GNP	1972=100	232.5	239.8	242.7	246.9	249.4	244.7	5.2
Personal cons. expenditures	1972=100	233.3	243.2	247.5	253.0	256.1	249.9	7.1
Gross private dom.investment	1972=100	222.0	223.1	224.9	225.1	226.7	224.5	1.1
Federal purchases	1972=100	238.8	239.4	240.5	241.7	242.8	241.3	2.0

*Historical data (1) % change over previous year **Finished goods

1.22 NOMINAL GNP

(Table 1.22 on page 11)

Data on Personal Consumption Expenditures for the rest of this year and for 1985 and 1986 show that such expenditures will remain a strong factor propelling overall growth in that period and preventing the economy from declining. As seen in Table 1.22, the growth of nominal Personal Expenditures will be around 10 percent in 1985, far above the 7.4 percent growth rates of nominal GNP in that year.

The Gross Private Domestic Investment data point to a coming slowdown in economic activity. The sharp drop from the expected 1984 32 percent rate to the .4 percent rate in 1985 and the 1.4 percent rate in 1986 is due mainly to the expected change in inventories and the leveling off of residential construction. Forecast data for business capital outlays point to moderate growth in 1985. In the first half of 1986, some declines are expected. Growth will resume later that year.

The forecast of foreign trade remains pessimistic although not as gloomy as some forecasters keep predicting. Foreign trade will remain in the red both years. In the long-term forecast, a better performance is expected to take place not earlier than in 1987 and the following years.

Federal expenditures in goods and services will grow faster than spending by state and local governments mainly due to the increasing expenditures on defense.

In general, the 1985-1986 outlook for nominal GNP and its main components shows a more proportionate growth than that which took place this year--excluding foreign trade. The main causes of the red ink in the balance of trade are well known: high international value of the dollar, slow recovery overseas, and improved but still comparatively low productivity of the U.S. exporting industries.

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Gross national product	bil.$	3310.5	3553.3	3644.7	3696.8	3758.2	3663.2	10.7
Personal cons. expenditures	bil.$	2158.0	2276.4	2332.9	2382.5	2431.6	2355.8	9.2
Gross private dom.investment	bil.$	470.9	623.9	626.3	618.4	621.5	622.6	32.0
Net exports	bil.$	-9.0	-51.4	-58.3	-59.1	-60.8	-57.5	--
Federal purchases	bil.$	274.8	267.6	296.4	301.1	305.5	292.7	6.5
State and local purchases	bil.$	414.7	436.9	447.4	453.9	460.4	449.7	8.4

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Gross national product	bil.$	3663.2	3805.5	3899.5	3978.8	4046.3	3932.5	7.4
Personal cons. expenditures	bil.$	2355.8	2483.1	2570.8	2631.8	2691.6	2594.3	10.1
Gross private dom.investment	bil.$	622.6	614.9	614.0	625.7	625.8	620.1	-.4
Net exports	bil.$	-57.7	-69.3	-72.1	-75.1	-77.5	-73.4	--
Federal purchases	bil.$	292.7	311.3	316.6	320.3	326.4	318.7	8.9
State and local purchases	bil.$	449.7	465.0	470.2	476.1	480.4	473.0	5.2

Indicator	Unit	1985	1986 1	1986 2	1986 3	1986 4	1986	% (1)
Gross national product	bil.$	3932.6	4118.1	4190.0	4294.6	4375.6	4244.6	7.9
Personal cons. expenditures	bil.$	2594.3	2759.7	2822.2	2899.7	2957.3	2859.7	10.2
Gross private dom.investment	bil.$	620.1	620.3	620.9	633.7	639.6	628.6	1.4
Net exports	bil.$	-73.4	-79.9	-80.7	-78.5	-72.7	-77.9	--
Federal purchases	bil.$	318.7	332.3	339.7	348.4	356.2	344.2	8.0
State and local purchases	bil.$	473.0	485.9	487.9	491.4	495.2	490.1	3.6

*Historical data (1) % change over previous year

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

There is some small revisions in the forecast of the jobless rate. Expect the fourth quarter to show average unemployment of 7.26 percent as compared to an average of 7.34 percent in the third quarter. For 1984 as a whole, look to joblessness of 7.49 which reflects a drop of 21.8 percent over the prior year's average.

KEDI expects the rate will edge down in September and continue to decline by small increments during the rest of this year. In August, the jobless rate remained at 7.5 percent--the same as the July rate. A Labor Department survey of business payrolls pointed to 160,000 jobs being created in August while a monthly survey of households found a seasonally adjusted decline in employment of over 400,000 jobs. That latter survey is regarded skeptically and is considered a fluke.

Looking at the job picture over the next two years presents a mixed picture. On one side of the picture are steady gains in the total number of people holding jobs. Anticipate that 2 million jobs will be added in 1985 and 1 million in 1986. On the other side, the forecast of the jobless rate at KEDI is not exactly a bright spot with the rate being near 7.4 percent during most of 1985. The rate is seen as fluctuating in a narrow range between 7.36 and 7.46 for quarterly averages. It is seen as increasing just a tad toward the end of that year and in the first part of 1986 and then declining fractionally during the rest of 1986.

KEDI shares the view of the White House that the lack of change in the unemployment rate in August is good news. The view of Lawrence Chimerine of Chase Econometrics that it is quite possible that a sharp slowdown will take place by next year if interest rates move higher is not shared at this Institute. (The Wall Street Journal September 10, 1984, page 5.) Mr. Chimerine cites large deficits as being the cause of any interest gains. KEDI has repeatedly stated that there is no connection.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Population	mil.	223.9	235.8	236.7	237.8	238.9	237.3	1.3
Civilian labor force	mil.	111.6	112.6	113.6	114.7	115.7	114.2	2.4
Employment	mil.	100.8	103.7	105.1	106.3	107.3	105.6	4.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagriculture	mil.	97.5	100.4	101.7	102.9	103.9	102.2	4.8
Unemployment rate	%	9.58	7.87	7.48	7.34	7.26	7.49	-21.8

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.2	116.8	117.9	119.1	120.3	118.5	3.8
Employment	mil.	105.6	108.1	109.2	110.3	111.3	109.7	3.9
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nonagriculture	mil.	102.2	104.7	105.8	106.9	107.9	106.3	4.0
Unemployment rate	%	7.49	7.43	7.36	7.40	7.46	7.41	-1.1

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	118.5	121.4	122.5	123.7	124.9	123.1	3.9
Employment	mil.	109.7	112.2	113.4	114.7	116.1	114.1	4.0
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Nomagriculture	mil.	106.3	108.8	110.0	111.3	112.7	110.7	4.1
Unemployment rate	%	7.41	7.57	7.42	7.26	7.07	7.33	-1.1

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*Historical data (1) % change over previous year

1.40 HOUSING AND AUTOMOBILES

1.41 HOUSING

(Table 1.41 on page 15)

The forecast for housing starts is revised in this issue--particularly attributable to the recent hefty revision of the Commerce Department of the actual data for the second quarter of this year. Look to single-family starts being 7.5 percent higher this year than in 1983 with total starts of 1.149 million. Multifamily starts are forecast at .684 million this year or up 5.8 percent over last year. In 1985, expect single-family starts to total an adjusted average of .945 million, and that represents a drop of around 17.7 percent from the current year. Multifamily starts in 1985 are forecast here as reaching a total about 8.9 percent less than this year.

As expected by KEDI, housing starts dropped in August. They were off by 12.8 percent from the prior month to an annual rate of 1.537 million units. That level was nearly 18 percent lower than the rate of one year ago. KEDI had maintained for over a year that the rate of starts which was rapid in the first part of of this year would be followed by declines in the second half. That is happening now and will continue.

Reasons for the declines are seen in the following:

1. High interest rates. These are a factor, but one should not blame them for everything. It is not high interest rates alone.

2. The fact is that the housing cycle has peaked and NOW IS IN THE DECLINING STAGE. During the last 1½ years more than enough houses were built to satisfy pent-up demand. There is no more strong demand now. That situation will remain about the same through early 1986 when the bottom of the trough of the cycle is seen as being reached.

In 1986 small gains in housing starts will be made around the middle of the year. Still, the total averages for that year will show some small declines as compared to 1985 due to the low pace of average housing starts in the first quarter in the .908 million range.

TABLE 1.41 HOUSING

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

					1984			
Indicator	Unit	1983*	1 *	2	3	4	1984	% (1)
Single-family housing starts	mil.	1.068	1.278	1.138	1.140	1.041	1.149	7.5
Multifamily housing starts	mil.	.635	.690	.768	.645	.634	.684	5.8
Mobile home shipments	mil.	.296	.298	.294	.310	.301	.301	4.5
Permits authorized	mil.	1.594	1.809	1.743	1.681	1.622	1.714	7.5
1-family unit price, new**	tho.$	89.8	94.7	96.5	99.1	100.1	97.6	8.7
1-family unit price,existing**	tho.$	82.5	86.5	88.7	92.6	93.1	90.2	9.3

					1985			
Indicator	Unit	1984	1	2	3	4	1985	% (1)
Single-family housing starts	mil.	1.149	.967	.971	.976	.868	.945	-17.7
Multifamily housing starts	mil.	.684	.619	.653	.620	.601	.623	-8.9
Mobile home shipments	mil.	.301	.274	.280	.281	.232	.267	-11.3
Permits authorized	mil.	1.714	1.490	1.506	1.507	1.382	1.471	-14.2
1-family unit price, new**	tho.$	97.6	103.6	104.2	105.1	104.8	104.4	7.0
1-family unit price,existing**	tho.$	90.2	95.1	95.4	96.7	96.7	96.0	6.4

					1986			
Indicator	Unit	1985	1	2	3	4	1986	% (1)
Single-family housing starts	mil.	.945	.908	.933	.942	.931	.928	-1.8
Multifamily housing starts	mil.	.623	.574	.596	.635	.614	.605	-3.0
Mobile home shipments	mil.	.267	.228	.233	.251	.260	.243	-8.9
Permits authorized	mil.	1.471	1.334	1.404	1.489	1.587	1.453	-1.2
1-family unit price, new**	tho.$	104.4	103.1	105.8	108.7	112.5	107.5	3.0
1-family unit price,existing**	tho.$	96.0	97.8	97.2	99.4	102.6	99.3	3.4

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*Historical data (1) % change over previous year **Seasonally not adjusted

1.42 AUTOMOBILES

(Table 1.42 on page 17)

KEDI has revised its forecast for the auto industry this year. The strike did not last as long as had been seen as likely here, and that has lead to increasing the forecast for domestic car sales in the last quarter of this year to an average of 7.9 million with the sales total of domestic cars being close to 19 percent higher this year than last year.

U.S. made cars were selling at a pace 13.7 percent higher this August than in August of the prior year. In mid-September such sales were up by 18.1 percent from the same period in 1983. The mid-September sales represented a seasonally adjusted annual rate of 8.1 million cars. Experts referred to the fact that the strike of a week's duration would not show up in a sales figures until after a few weeks when the supply of autos on lots show depletion.

Like housing, the pent-up demand has been largely satisfied. The forecast here shows that some flatness and some slow declines are in the picture during the next 1½ years. However, compared to housing, the decline in car production and sales in 1985 and 1986 will not be quite as steep.

Whereas car sales, in total, are seen as being 14.1 percent higher this year than last year, look to them to go down by close to 4.8 percent in 1985 and around 3.0 percent in 1986 as compared to the prior year.

In the first 20 days of September sales were up by almost 38 percent for GM's Pontiac Division and 26 percent for the Chevrolet Division. Ford saw a sales gain of about 36 percent for the Ford Division and 29 percent for Lincoln-Mercury while total sales for Chrysler were up 26 percent over the same period in 1983.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	9.2	10.6	10.6	10.5	10.3	10.5	14.1
Domestic	mil.	6.8	8.3	8.2	8.0	7.9	8.1	19.1
Imported	mil.	2.4	2.3	2.4	2.4	2.3	2.4	1.0
Dealers inventories, n.s.a.	mil.	1.4	1.6	1.3	1.2	1.4	1.4	.0
Factory shipments	mil.	6.7	8.3	8.0	7.9	7.8	8.0	19.7
Light-duty trucks:								
Total sales	mil.	2.5	3.0	3.2	3.1	2.9	3.0	20.0

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	10.5	10.2	10.1	9.8	9.7	10.0	-4.8
Domestic	mil.	8.1	7.8	7.7	7.4	7.3	7.5	-7.2
Imported	mil.	2.4	2.5	2.5	2.4	2.4	2.5	.5
Dealers inventories, n.s.a.	mil.	1.4	1.6	1.7	1.6	1.5	1.5	.0
Factory shipments	mil.	8.0	7.6	7.7	7.5	7.5	7.6	-8.3
Light-duty trucks:								
Total sales	mil.	3.0	2.5	2.8	3.0	2.8	2.8	-6.7

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0
Domestic	mil.	7.5	7.1	7.4	7.2	7.3	7.3	-2.8
Imported	mil.	2.5	2.4	2.3	2.4	2.5	2.4	-.4
Dealers inventories, n.s.a.	mil.	1.5	1.9	1.8	1.7	1.5	1.5	.1
Factory shipments	mil.	7.6	7.3	7.3	7.0	7.0	7.2	-3.1
Light-duty trucks:								
Total sales	mil.	2.8	2.7	2.8	2.7	2.6	2.7	-3.6

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*Historical data (1) % change over previous year

1.50 BUDGETS

(Table 1.50 on page 19)

KEDI (and the U.S. Chamber of Commerce for 1984) are more optimistic regarding the federal deficit than the House/Senate Conference. They completed their work on a forecast of the federal budget deficit that shows them going up over the next few years. The measure is called the budget resolution. Looking over the years presented in the table here shows KEDI with a deficit roughly $60 billion smaller in fiscal 1987 than The Resolution from Congress. On the other hand, the U.S. Chamber of Commerce sets the red ink in that year at a fantastically low $39 billion. It will never be anywhere near that low.

Federal Deficit, Fiscal Years in Billions of Dollars

	The Resolution	KEDI	CBO	U.S. C. of C.	OBM
1984	$173	$164	$173	$164	$174
1985	181	160	178	130	167
1986	193	155	195	83	166
1987	208	140	216	39	173
1988	-	136	238	+ 30	160
1989	-	121	263	+ 97	139

The Resolution = House/Senate Resolution
CBO = Congressional budget Office
C. of C. = Chamber of Commerce
OBM = Office of Budget Management

The CBO sets the deficit at a whopping $216 billion in 1987. (It should be noted that the CBO has prepared an alternate projection using a higher rate of growth that forecast a deficit of just $21 billion in 1989.) It is well known that they have often been way off when predicting the debt. The same is true for Mr. Stockman as he forecast in January of 1983 that the deficit would total $231 for the fiscal year ending Sept. 30 of this year whereas the deficit has gone down to around $170-175 billion--some supply side economists noted that with a great deal of glee.

KEDI maintains its forecast of declining deficits. Surpluses of state and local governments are seen as gaining steadily. Look to a 10 percent rise in state and local taxes in 1985 and a further 8.5 percent gain in 1986.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	298.5	301.6	310.7	319.1	327.8	314.8	6.4
Corpor.profits tax accruals	bil.$	60.4	73.0	75.6	78.5	80.1	76.8	27.3
Surplus/deficit	bil.$	-182.0	-161.3	-163.7	-164.1	-162.6	-162.9	-10.3
State and local governments:								
Income taxes	bil.$	110.5	116.7	119.6	125.0	127.1	122.1	10.4
Corpor.profits tax accruals	bil.$	19.5	19.7	20.2	21.5	21.7	20.8	25.2
Surplus/deficit	bil.$	51.4	53.9	54.5	55.7	58.6	55.7	8.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	314.8	336.6	342.5	347.3	354.1	345.1	9.6
Corpor.profits tax accruals	bil.$	76.8	81.4	85.1	85.9	88.2	85.2	10.9
Surplus/deficit	bil.$	-162.9	-163.1	-160.5	-159.2	-151.7	-160.0	-1.8
State and local governments:								
Income taxes	bil.$	122.1	129.0	134.8	137.2	139.6	135.2	10.7
Corpor.profits tax accruals	bil.$	20.8	22.9	24.9	26.1	27.3	25.3	21.8
Surplus/deficit	bil.$	55.7	61.2	64.3	68.6	71.2	66.3	19.1

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Federal government:								
Income taxes	bil.$	345.1	367.5	376.8	378.0	381.2	375.9	8.9
Corpor.profits tax accruals	bil.$	85.2	90.1	91.4	95.0	98.8	93.8	10.2
Surplus/deficit	bil.$	-160.0	-155.7	-153.4	-149.6	-148.3	-151.8	-5.1
State and local governments:								
Income taxes	bil.$	135.2	141.7	142.9	143.8	145.7	143.5	6.2
Corpor.profits tax accruals	bil.$	25.3	28.1	29.6	30.7	31.8	30.1	18.8
Surplus/deficit	bil.$	66.3	73.0	74.7	76.5	77.7	75.5	13.8

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.60 on page 21)

The forecast for income is slightly changed with personal income now seen as being 10.4 percent higher this year than last year instead of 10.2 percent higher. Personal disposable income is forecast at 10.9 percent more this year than in 1983. Expect personal income to gain a further 10.5 in 1985 while disposable income increases by 10.6 percent. Average weekly pay of factory workers was off by $1.21 in August to $368.34 according to the Labor Department. Average weekly earnings will start to level off. That is a good sign because no wage-push inflation is in sight. Average weekly earnings are projected as going up 4.1 percent by KEDI for the current year and 3.8 percent in 1985. There will be some resurgence in 1986 with such pay being 6.1 percent higher that year.

Corporate Profits: The forecast for such profits, after taxes, has been lowered in this issue, but healthy gains still are the rule. Expect them to be 15.3 percent higher this year as compared to 1983. Look to a gain of 8.5 percent in 1985 and 10.0 percent in 1986. The main increases will come from gains in machine tools, automobiles, electronics, chemicals, plastics, defense equipment, and paper and products in 1985. At the same time, look to a leveling off of profits in coal mining, food, printing and publishing, rubber, clay, glass and stone products, primary metals, iron ore mining, textile and apparel, railroads, and trucking.

A slowdown in the rate of gain in personal income and personal disposable income is forecast for 1986. Data from both aggregates adjusted FOR INFLATION SHOW MODERATE GAINS: the growth of nominal income will keep outpacing inflation by steady margins.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted
at annual rates)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2742.1	2920.5	2982.3	3061.2	3144.5	3027.1	10.4
Personal disposable income	bil.$	2335.6	2502.2	2554.3	2616.6	2689.0	2590.5	10.9
Compensation of employees	bil.$	1990.2	2113.4	2159.2	2201.1	2268.1	2185.5	9.8
Corporate after tax profits	bil.$	130.6	150.6	150.2	154.6	152.3	151.9	16.3
Personal saving	bil.$	113.6	152.5	146.8	149.1	151.5	150.0	32.0
Average weekly earnings	$	354.5	366.2	370.1	368.9	370.2	368.9	4.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	3027.1	3231.7	3307.5	3370.2	3471.6	3345.3	10.5
Personal disposable income	bil.$	2590.5	2766.1	2830.2	2885.7	2977.9	2864.5	10.6
Compensation of employees	bil.$	2185.5	2329.2	2368.1	2391.1	2403.1	2372.9	8.6
Corporate after tax profits	bil.$	151.9	156.7	162.6	169.4	170.3	164.8	8.5
Personal saving	bil.$	150.0	156.2	152.3	156.4	158.1	155.3	3.5
Average weekly earnings	$	368.9	374.3	379.8	385.3	391.6	382.8	3.8

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Personal income	bil.$	3345.3	3491.5	3543.2	3609.4	3652.8	3574.2	6.8
Personal disposable income	bil.$	2864.5	3033.9	3075.0	3136.4	3172.8	3104.5	8.4
Compensation of employees	bil.$	2372.9	2453.4	2480.7	2531.4	2572.8	2509.6	5.8
Corporate after tax profits	bil.$	164.8	174.2	177.6	183.5	189.7	181.3	10.0
Personal saving	bil.$	155.3	158.3	162.4	167.3	169.5	164.4	5.9
Average weekly earnings	$	382.8	397.8	401.6	408.5	416.3	406.1	6.1

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

For the rest of this year, growth in M1 and M2 will remain well within the target range set by the Federal Reserve:

Fed Target Range		KEDI Forecast for Rest of Year
M1	4-8%	6.7%
M2	6-9%	8.6%

Forecast data for 1985 show moderate growth in both aggregates. The forecast shows fractional adjustments in this issue. The moderate growth corresponds with the expected pause in economic growth in part of 1985. Data for the first half of 1986 indicate a further slowing. Look to some significant increases in the second half of 1986 as can be seen in the projection of monetary and credit aggregates in Table 1.70 on page 23. The data also show an end to the dramatic increases in consumer credit, mortgage loans, and commercial loans starting in 1985 and slowing even more in 1986.

As to consumer credit, KEDI expects the surge to end this year. In mid-September, the Federal Reserve announced that such credit had continued to surge through July, but the gain of 7.1 billion was not as great as the increases that took place in the prior two months. KEDI shares the view of Alan Murray, vice president of Citicorp Information Services, that such large growth of consumer credit won't continue as the consumer will be satiated.

A corresponding trend is forecast here for home mortgage loans since the peak of the housing boom is already past and a lower level of starts is forecast for the next two years. Also, the demand for commercial credit will ease significantly. That process has already begun, and KEDI does not share the view of Jay N. Woodworth of Bankers Trust Co. that October of this year will show the start of much faster growth rates in the economy and higher needs for credit.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1983*	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits,M1	bil.$	509.0	532.7	540.8	546.4	551.2	542.8	6.6
Time deposits, adjusted,M2	bil.$	2115.9	2217.3	2257.7	2315.4	2375.2	2291.4	8.3
Consumer instal. credit	bil.$	387.9	402.5	427.6	432.4	439.8	439.8	13.4
Commerc. & indus. loans at banks	bil.$	413.0	428.2	453.2	461.5	468.7	468.7	13.5
Large denomination time dep.	bil.$	307.5	340.7	354.1	347.1	353.6	348.9	13.5
Mortgages at S&L Assns.	bil.$	493.4	502.1	526.8	532.4	536.1	536.1	6.8

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Currency and demand deposits,M1	bil.$	542.8	559.3	566.9	571.2	577.3	568.8	4.8
Time deposits, adjusted,M2	bil.$	2291.4	2423.4	2475.2	2520.7	2562.1	2495.4	8.9
Consumer instal. credit	bil.$	439.8	442.6	449.3	454.6	460.7	460.7	4.8
Commerc. & indus. loans at banks	bil.$	468.7	473.5	480.6	484.6	487.3	487.3	4.0
Large denomination time dep.	bil.$	348.9	354.2	360.1	362.8	368.1	361.3	3.6
Mortgages at S&L Assns.	bil.$	536.1	538.4	541.7	545.4	549.9	549.9	2.3

Indicator	Unit	1985	1986				1986	% (1)
			1	2	3	4		
Currency and demand deposits	bil.$	568.8	586.2	593.1	603.6	614.2	599.3	5.4
Time deposits, adjusted,M2	bil.$	2495.4	2640.6	2701.4	2769.3	2840.5	2738.0	9.7
Consumer instal. credit	bil.$	460.7	464.8	466.7	469.3	473.9	473.9	2.9
Commerc. & indus. loans at banks	bil.$	487.3	488.5	491.2	495.3	499.8	499.8	2.6
Large denomination time dep.	bil.$	361.3	369.2	374.2	382.1	388.3	278.5	4.8
Mortgages at S&L Assns.	bil.$	549.9	552.6	553.7	556.9	561.3	561.3	2.1

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 1.80 on page 25)

The forecast here shows minor adjustments. Recent declines in interest rates do no signal a definite trend yet. More lasting relief is not expected to even start until late next year when the economy has cooled more and pressures on financial markets have relaxed. Look to possible increases in the first part of 1985 in short-term rates.

For a change, KEDI agrees with Kaufman in his long-term outlook, i.e., interest rates will remain fairly firm throughout next year. Any relief is only temporary until later next year. HOWEVER, there will not be an explosion of interest rates that he expects due to high budget deficits coupled with continued growth--unless action is taken to sharply reduce the deficit--according to Kaufman.

Albert T. Sommers, of the Conference Board predicted interest rates would generally decline over the next year and end up about 1.5-2 percentage points lower than they are currently. KEDI DOES NOT AGREE. Reasons underlying KEDI's position are presented:

1. There is no direct relationship between federal deficits and interest rates.
2. The reason why interest rates will remain firm is that the economy will keep on expanding for most of 1985 even though the rate will be slower. There will not be a recession. Even moderate expansion keeps the demand for funds strong and, HENCE, the rates cannot come down. More problems are anticipated as appearing around the end of 1985 and the beginning of 1986 when the economy will show significant cooling. That will be the time to help the situation by lowering interest rates. So, look to a downward trend in 1986 NOT IN 1985.

The forecast for the stock and bond markets in 1985 does not show much change. Toward mid-1986 such markets will improve.

TABLE 1.30 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo yield)	%	8.61	9.17	9.81	10.27	10.16	9.85	14.4
Prime rate	%	10.70	11.08	12.31	13.00	12.75	12.29	14.9
Conventional mortgage rate	%	13.43	13.57	13.98	14.45	14.24	14.06	4.7
Aaa corporate bonds rate	%	12.04	12.28	12.97	12.75	12.70	12.68	5.3
20 years Govt. bonds yield	%	11.34	12.16	12.68	12.64	12.58	12.52	10.4
Standard & Poor's 500 Average	1941-43 =100	160.41	160.02	160.02	162.12	159.84	160.62	.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo yield)	%	9.85	10.10	10.54	10.86	11.06	10.64	8.0
Prime rate	%	12.29	12.75	13.10	13.40	13.30	13.14	6.9
Conventional mortgage rate	%	14.06	14.36	14.58	14.40	14.32	14.42	2.6
Aaa corporate bonds rate	%	12.68	12.39	12.34	12.96	13.14	12.83	1.2
20 years Govt. bonds yield	%	12.52	12.72	13.14	13.41	13.54	13.20	5.4
Standard & Poor's 500 Average	1941-43 =100	160.62	154.16	155.28	159.46	162.07	157.74	-1.8

Indicator	Unit	1985	1986				1986	%
			1	2	3	4		(1)
Treasury bills (3 mo yield)	%	10.64	11.14	11.01	10.76	10.02	10.80	1.5
Prime rate	%	13.14	13.00	12.68	12.51	11.80	12.50	-4.9
Conventional mortgage rate	%	14.42	14.21	14.02	13.54	13.02	13.70	-5.0
Aaa corporate bonds rate	%	12.83	13.21	13.46	13.02	12.52	13.05	1.7
20 years Govt. bonds yield	%	13.20	13.56	13.32	12.92	12.51	13.08	-.9
Standard & Poor's 500 Average	1941-43 =100	157.74	160.06	156.24	162.37	168.54	161.80	2.3

*Historical data (1) % change over previous year

2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

This October 1984 issue continues the description of relationships between the Kent Model's Interindustry Division and the Aggregative Division.

5.40 NATIONAL INCOME AND PRODUCT DATA AND THE INTERINDUSTRY DATA

5.42 THE MARKET SIMULATION MECHANISM

In the Kent Model, data for final outputs of industries are generated in the Interindustry Division and data for the final distribution of income by industries, in the Aggregative Division. Both data sets are linked through the Market Simulation Section of the Model.

As it is seen in Figure 3., the Market Simulation Section receives the data that have been generated in the Interindustry Division of the Model and represent final outputs of each of the Model's 83 industries. It also receives data that have been generated in the Aggregative Division and represent demands of final consumers for products of 83 industries.

MARKETS FOR FINAL OUTPUTS OF
83 INDUSTRIES

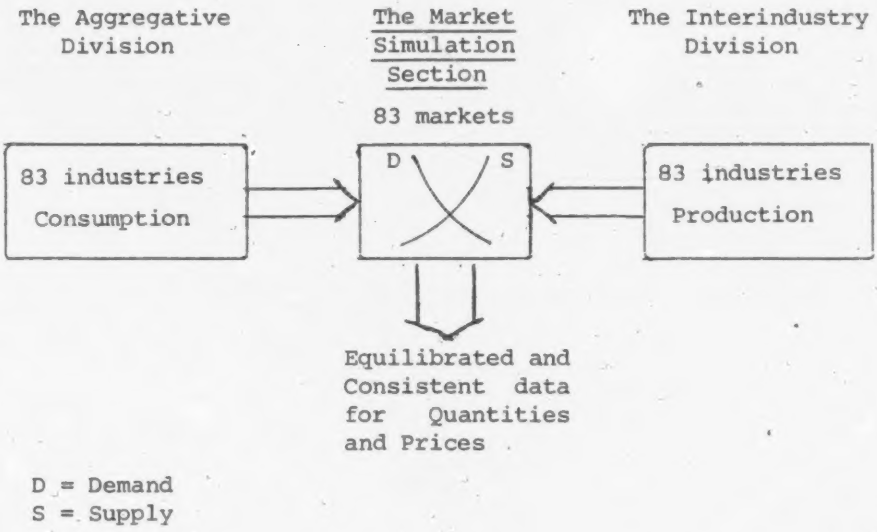
The Aggregative Division
The Market Simulation Section
The Interindustry Division
83 markets
83 industries
Consumption
D
S
83 industries
Production
Equilibrated and Consistent data for Quantities and Prices
D = Demand
S = Supply

Figure 3.

THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

All data that enter the Market Simulation Section of the Model are either values in constant terms or values of price deflators:

Data originate in:	Type of data:	Representing:
The Interindustry Division	Values in constant $	Quantities supplied
	Price deflators	Supply prices
The Aggregative Division	Values in constant $	Quantities demanded
	Price deflators	Demand prices

The purpose of the Market Simulation Section is to bring together the differing quantities demanded and supplied, and the differing demand and supply prices. In other words, to find the equilibrium quantities and equilibrium prices for each of 83 industries.

Actually, in the Market Simulation Section, 83 macroeconomic markets, each for one of the Model's 83 industries are simulated. Quantities demanded and supplied on each market and the demand and supply prices interact and converge to a unique solution for each industry. As a result of the markets' simulation procedures, equilibrium values of quantities and prices for each industry are obtained. Such equilibrium values are then used in the Aggregative and Interindustry Divisions to secure the consistency of forecast data, to determine the changes in inventories of products, and to calculate costs of production and costs of commodities sold.

The market simulation mechanism built into the Kent Model has been described in the June 1984 issue of this Survey (Vol.9, No.10, pp.27,28.)

(CONTINUED)

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Personal Consumption Expenditures on Nondurable Goods in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.6, June 1984, Table 1.1. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Consumption Expenditures on Nondurable Goods, 1983, in bil.curr.$)

Actual figure: 804.1

Forecaster(and page in source)	Date of Forecast	Forecast	Accuracy (%)
Albert T. Sommers,The Conference Board,pg 8	11/17/82	815.0	1.3
Calvin R. Myers, The Merchants National Bank of Aurora, pg 10	12/82	826.0	2.7
Walter D. Fackler, University of Chicago,pg12	12/8/82	818.0	1.7
Georgia State University, pg 17	11/82	814.7	1.3
Manufacturers Hanover Trust Company, pg 22	12/82	797.9	-.8
Metropolitan Life Insurance Company, pg 24	12/1/82	835.5	3.9
The Fidelity Bank, pg 25	12/8/82	817.1	1.6
Citibank Economic Forecast Service, pg 26	12/9/82	813.4	1.2
Chase Econometrics, pg 29	12/29/82	805.1	.1
Kent Economic and Development Institute,pg30	1/1/83	809.0	.6
Standard & Poor's Corporation, pg 34	1/6/83	797.6	-.8
Morgan Guaranty Trust Company of New York,pg35	1/7/83	803.1	-.1

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 3.00 HISTORICAL DATA SOURCES (CONTINUED)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36